Stock Update

CSB Bank Ltd.

December 04, 2023

RETAILRESEARCH

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20 YEARS

CSB Bank Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Banks	Rs. 384	Buy in the band of Rs. 380-388 & add more on dips to Rs. 340-346 band	Rs. 417	Rs. 456	2-3 quarters

HDFC Scrip Code	CSBBAN
BSE Code	542867
NSE Code	CSBBANK
Bloomberg	CSBBANK IN
CMP December 01, 2023	384
Equity Capital (Rs Cr)	174
Face Value (Rs)	10
Equity Share O/S (Cr)	17.4
Market Cap (Rs Cr)	6663
Adjusted Book Value (Rs)	180.5
Avg. 52 Wk Volumes	563764
52 Week High	399
52 Week Low	218

Share holding Pattern % (September, 2023)	
Promoters	49.7
Institutions	21.9
Non Institutions	28.4
Total	100.0

* Refer at the end for explanation on Risk Ratings

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Our Take:

CSB Bank is a century old private sector bank in India having a strong base in Southern India. After being taken over by new promoters (Toronto-based Fairfax group) in October 2018, the real transformation had started. Changes like creating new brand image, funding the capital for growth, strengthening top management by bringing in new experienced people, product-based lending approach etc. were implemented. And now after achieving critical transformation, the bank has continued its focus on growth. Aggressive branch expansion, digitization & technology on boarding, improving CASA ratio to lower cost of funds, strengthening retail segment by launching new product suite are a few key focused areas.

The new management has laid down a growth plan – Sustain, Build, Scale 2030 i.e., SBS 2030, according to which there will be healthy growth over 3 years and it will further accelerate thereafter. The bank is well capitalized to fund growth without having to raising capital at least in next one year. Over dependence on gold loans and South India being a key market place brings concentration risk. The Bank has opened 100 branches each in three consecutive financial years (FY21, FY22 and FY23).

Previously, we had issued a stock update report on CSB Bank (link) on 26th June, 2023 with targets of Rs. 301 and Rs. 327. The bull case target was achieved on 18th August, 2023.

Valuation & Recommendation:

The Bank reported healthy growth numbers in Q2FY24. Deposits grew 21/4% YoY/QoQ, out of which CASA deposits grew 4% YoY and flat sequentially. Gross advances rose by 27/2% YoY/QoQ, out of which advances against Gold and Gold Jewelry rose by 32/5% YoY/QoQ. Non gold loans have started to grow healthily as well. The bank has strong provision coverage ratio of 91.75% including write offs. The asset quality of the bank has improved significantly over last couple of years and the trend of strong recoveries and upgrades are expected to continue. We have envisaged 19% CAGR in its advances over FY23-25E, while its NII and PAT are expected to grow by 18% and 10% CAGR respectively over the same period.

We believe that investors can buy CSB Bank in the band of Rs. 380-388 (1.52xFY25E ABV) and add more on dips in the band of Rs. 340-346(1.35xFY25E ABV) for the base case fair value of Rs. 417(1.65xFY25E ABV) and for the bull case fair value of Rs. 456 (1.8xFY25E ABV) over the next 2-3 quarters.

Financial Summary (Rs. in cr)

	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	FY21	FY22	FY23	FY24E	FY25E
NII	343.7	325.0	5.8	364.0	-5.6	941.4	1153.3	1333.9	1545.2	1868.3
PPP	174.6	157.4	11.0	181.4	-3.7	1342.2	1400.3	1649.9	1988.2	2366.9
PAT	133.2	114.5	16.3	132.2	0.7	218.4	459.1	547.4	578.6	662.3
EPS (Rs)	7.7	6.6	16.4	7.6	0.8	12.6	26.5	31.5	33.3	38.2
P/E (x)						30.5	14.5	12.2	11.5	10.1
P/ABV (x)						3.3	2.6	2.1	1.8	1.5
RoAA (%)						1.0%	1.9%	2.0%	1.8%	1.8%

(Source: Company, HDFC sec)

Revision in Estimates (Rs. in cr)

	FY24E			FY25E		
	Old	New	% Change	Old	New	% Change
Advances	24368	24781	1.7	28632	29117	1.7
NII	1639	1545	-5.7	1895	1868	-1.4
PPOP	873	801	-8.2	1003	953	-5.0
PAT	620	579	-6.6	695	662	-4.7
EPS	35.7	33.3	-6.6	40.1	38.2	-4.7

(Source: Company, HDFC sec)

Recent Developments

Q2FY24 Result Update

The bank has reported a decent set of numbers in Q2FY24. The Net Interest Income (NII) stood at Rs. 344 crores, up 6% YoY but down 6% sequentially. The bank’s yield on advances stood at 10.88%, as against 11.18% in Q1FY24 and 10.81% in Q2FY23. On the other hand, the cost of deposit stood at 5.22%, rising by 104/22bps YoY/QoQ. The bank reported NIM of 4.84% as against 5.4% in Q1FY24 and 5.6% in Q2FY23. However, the bank is confident that its NIM has bottomed out in this quarter and as per plan, it should be able to report a NIM higher than 5%on a full-year basis. It earned Other Income worth Rs. 148 crores, up 230/22% YoY/QoQ. The Operating expenses of the bank stood at Rs. 318 crores, up 49/4% YoY/QoQ. The major contributors to this increase in opex were new branch openings and high recruitment of human resource at the bank. Its employee costs rose by 36% YoY on the back of bonuses and actuarial costs. The bank reported cost to income ratio of 64.5% for Q2FY24 as against 57.5% for Q2FY23. Management attributed this jump in the ratio to significant investments made on human resource, distribution, systems & processes aimed at creating a strong foundation to achieve its SBS 2030 targets. Investment in distribution, employees, and systems is expected to keep operating expenses at an elevated level for the next few quarters, but it should start to stabilize from FY25. This will also result in higher revenues going forward. Bank’s Pre-Provision Operating Profit stood at Rs. 175 crores, up 11% YoY but down 4% sequentially. After considering provisions, the net profit stood at Rs.133 crores, up 10/1% YoY/QoQ.

The bank has reported healthy growth in loan book which stood at Rs. 22,468 crores, up 27/2% YoY/QoQ. This was supported by impressive growth in the gold loan book of 32/5% YoY/QoQ. On the liability side, CASA balance stood at Rs. 7,448 crores which is up 4% YoY but flat sequentially. Overall deposit growth was 21/4% YoY/QoQ and stood at Rs. 25,438 crores. Further, the bank has a stable Liquidity Coverage Ratio of 109%. Its quarterly RoA stood at 1.73% as against 1.79% in Q1FY24.

	Distribution (%)			
	Branch	Deposits	Advances	CASA
Kerala	37%	53%	24%	57%
Tamil Nadu	17%	15%	28%	15%
Maharashtra	10%	17%	23%	14%
Andhra Pradesh	11%	1%	7%	1%
Karnataka	6%	5%	6%	4%
Others	19%	9%	12%	9%

(Source: Company, HDFC sec)

Concall Highlights

Q2FY24

- The management expects the credit book to rise 50% faster than the system. However, if deposits do not grow at the same pace, growth may be around 30–40%, faster than the system growth rate.
- CASA ratio will stay in the 30–33% range for the next couple of years. Mobilization of deposits has been a challenge for the bank. However, the bank grew its deposit book by 21% YoY versus a system growth rate of 13%.
- In context of term deposits, the focus is on building sustainable long-term deposits, irrespective of whether large or granular.
- Net Credit-Deposit ratio will remain in the 85–90% range.
- The bank is expected its NIM to improve in H2FY24, backed by faster growth in yields as compared to its cost of funds.
- Going forward, the management expects steady growth in its fee income. Insurance distribution is the largest source of core fee income.
- Investment in distribution, employees, and systems is expected to keep operating expenses at an elevated level for the next few quarters, but it should start to stabilize from FY25.
- Management has guided for credit cost in the range of 10–20bp for FY24 and 40–50bp for the next six-to-seven years.
- In the long run, the bank will maintain GNPA/NNPA at less than 2%/1% and credit cost in the 40–50bp range.

- Return ratios are expected to be in the range of 1.5–1.8% range, with the possibility of it rising to 2% in some quarters.
- The bank is planning to open 100 branches per year for the next few years. The bank is significantly expanding its SME segment in North and West India.
- Competition in the industry is present, but the bank is focusing on providing personalized attention to its customers in order to have long relationships.
- Risk-weighted assets grew by 12% QoQ, driven by growth in all segments including gold loans, wholesale, SME, and retail loans.
- Unlike usual, gold loan growth was not the primary driver of overall growth in the company, as retail and SME segment growth was also higher for the quarter.
- The cost of term deposits has increased due to repricing and higher incremental term deposit costs in the industry
- The company is focusing on cash management services for retail and small SME customers, which will help in acquiring more current account customers and offering solutions to SMEs
- The company has caps on LTV for non-agricultural gold loans at 75% and for agricultural gold loans at 85%.

Q1FY24

- The target loan book split is set at 20% for gold loans, 30% for retail loans, 20% for SME loans and rest 30% for corporate and other loans.
- Liquidity Coverage Ratio has fallen to 107% during Q1FY24. As per management, this fall was tactical backed by their view of falling interest rates going forward, hence, they did not want to lock-in huge sums in long term deposits at higher rates. The maturity of these short term deposits has added pressure on bank's LCR. It expects this ratio to stabilize around 110% by the end of Q3FY24.
- The credit-deposit ratio of the bank has reached as high as 89.66% as of June 2023. The management mentioned that considering the aggressive growth targets of the bank, they are comfortable with maintaining CD ratio in the range of 85-90% for FY24.
- The cost to income ratio in the long run is expected to stabilize around 41-43% by FY30.

Robust capital base

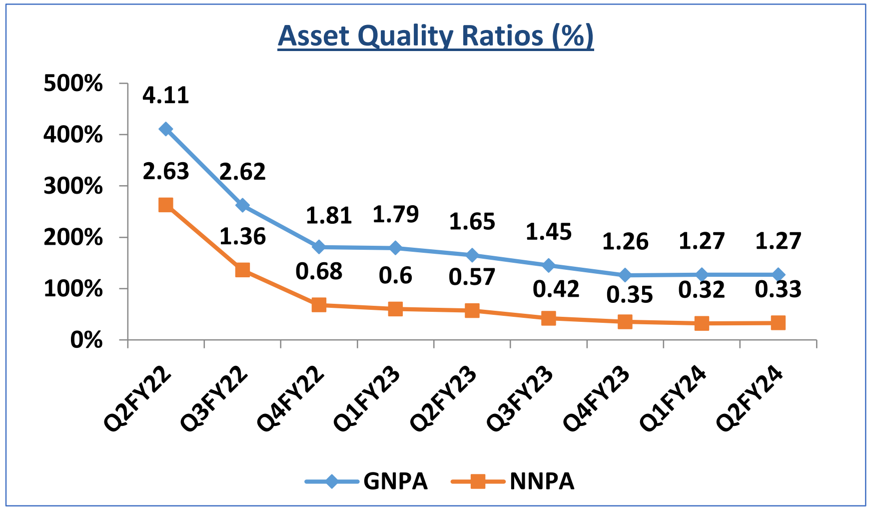
The bank has a very healthy capital adequacy level post fund infusion by promoters and subsequent IPO fund raise. Further, loan book is tilted towards gold loans which results lower risk weighted assets. As of Q2FY24, the Capital Adequacy Ratio (CAR) stood at 23.96%, which is well above the regulatory requirement of 12%. The bank's Tier I capital stood at 22.56%. There are very few banks in India, which has CAR above 25% level.

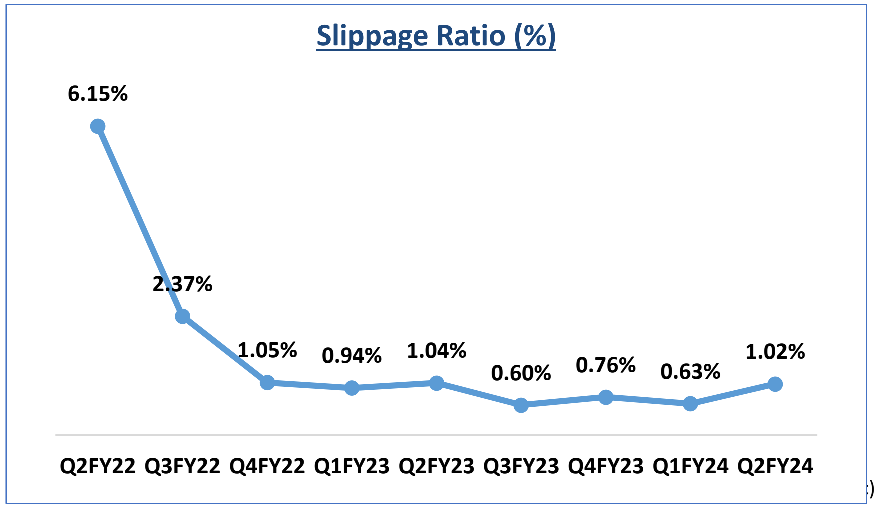
Significant improvement in asset quality

The bank has reported Rs. 54 crores worth of slippages (~1.02%) in the quarter, as against 0.63% in the previous quarter. The impact of slippages on the NPA levels was to some extent offset by strong recoveries, upgrades and write offs of Rs. 40 crores. As of Q2FY24, the

GNPA stood at 1.27%, down 38bps YoY and flat sequentially. Its NNPA stood at 0.33%, down 24 bps YoY. The bank has a Provision Coverage Ratio of 91.75%. After reporting negative credit costs in FY23, the bank had reported 0.07% credit costs in Q1FY24, and now credit costs are back to negative in Q2FY24.

The bank has a total of Rs. 173 crores of provisions, which includes Rs. 107 crores of provisions created earlier to address COVID related uncertainties. As a conservative policy, the management has not reversed these, but earmarked them internally against some accounts. Further, it aims to maintain gross and net NPA below 2% and below 1% over the long-term period. The bank has fully provided for it Security Receipts (SR) portfolio as of Q2FY24. Hence any subsequent recovery from this portfolio will be credited to the P&L Account in the future. Its restructured book stood at 0.09% of its gross advances as of Q2FY24 as against 0.14% in Q1FY24 and 0.41% in Q2FY23.

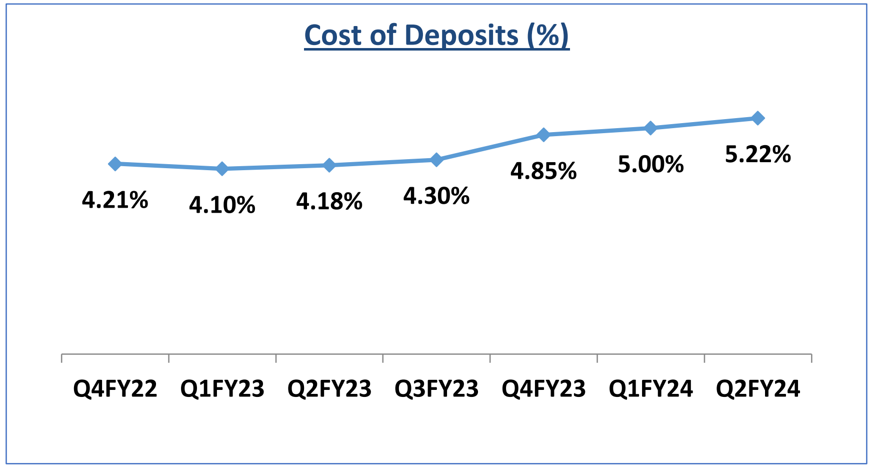


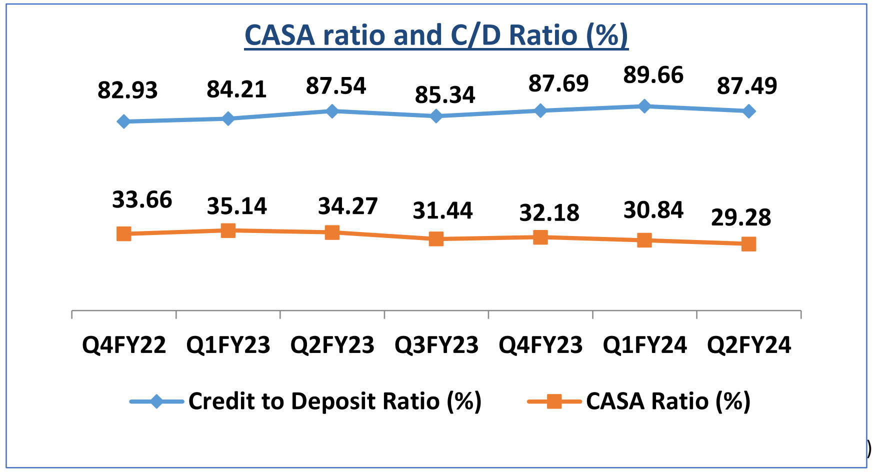


Rating wise, 97% of corporate advances are externally rated of which only 9% are having BBB & below rating. The bank rates SME accounts internally and 95% of SME advances are rated as Low/Medium risk categories.

Improving liability side of the balance sheet

Being a community linked south focused bank, the deposit base of CSB bank has remained sticky. It has created a brand name among NRIs (non-resident Indians) in the Southern region which has provided steady inflow and stability to its deposit base. The bank also benefits substantially from a sticky and large NRI deposit base which too has remained stable. The Deposit renewal rate over the past five years has remained at above 90%. However, the CASA ratio at 29.3% (down 499/156 bps YoY/QoQ) remains lower compared to its peers. The CASA balances in absolute terms fell by 1% sequentially but grew 4% YoY. As per the management, it may take at least 9-12 months to see growth in the CASA ratios. We will remain watchful on this parameter as the liquidity in the system is drying out. The Credit-Deposit ratio of the bank stands at an elevated level of 87.5% which has displayed some improvement from 89.7% reported in Q1FY24. Further, the cost of deposits for Q2FY24 stood at 5.22% as against 5% in Q1FY24. In the previous concall, the management specified its will to target advances growth even at the cost of sacrificing margins to some extent. Due to this reason, the bank is maintaining a healthy liquidity and capital adequacy levels. The bank is also actively expanding into the newer geographies. In order to achieve its goals, it will be more than necessary for the bank to increase deposits so as to tap the credit demand in the Indian economy.





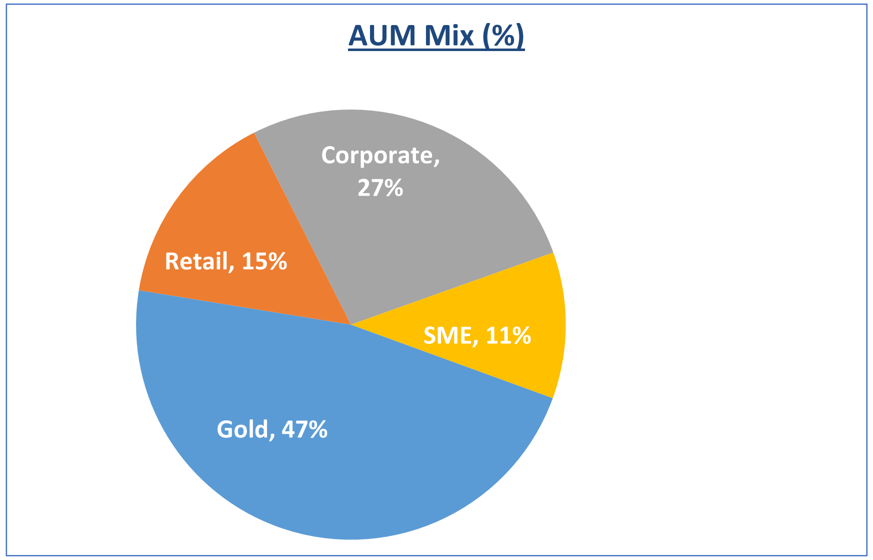
Gold loans driven loan book growth

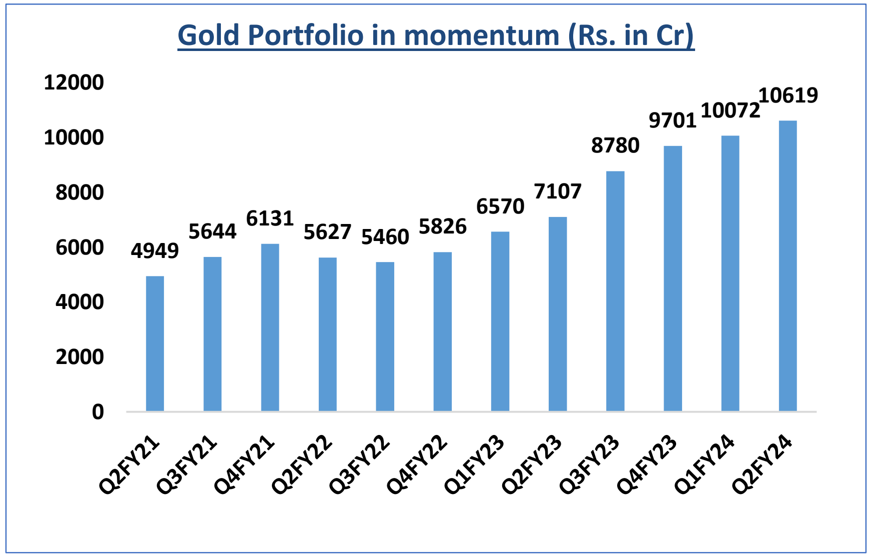
Total Gross Advances of the bank grew by 27/2% YoY/QoQ, and stood at Rs. 22,468 crores as at the end of Q2FY24. The growth was supported by gold loans, which grew by 32/5% YoY/QoQ, accounting for 47% of the bank's loan book. Further, the gold loan book contributed 54% of incremental YoY credit growth. Gold loan growth was on the back of tonnage growth coming from existing as well as new customers. The bank has an LTV (Loan to Value) ratio of 81% and 24.85 tonnes of gold in collateral, up 16% YoY. The number of active gold loan accounts have surged 11% YoY, from 6.4 lakhs to 7.1 lakhs. The book has yielded 11.7% to the bank with NPAs as low as 0.34%. The gold loans extended by the bank primarily carry a fixed rate of interest.

The bank's retail book has also shown good traction, growing by 38/5% YoY/QoQ and stood at Rs. 3,310 crores. The bank has changed its strategy and is now focusing on expanding its retail book which accounts for 15% of the overall loan book. The retail book of the bank consists of both fixed as well as variable rate loans. On the other hand, its corporate book grew by 17% YoY and was flat sequentially at Rs. 6,162 crores, accounting for 27% of the overall mix, as against 31% in Q2FY23. The interest rate on corporate book of the bank is linked to MCLR.

The bank's SME book stood at Rs. 2,377 crores, and is up 22% YoY but down 6% sequentially. In Q3FY23, this book displayed YoY de-growth and the management in the con-call for that period had mentioned that the risk adjusted returns in this segment were not attractive and hence the de-growth. However, in Q4FY23, this book grew by 9% QoQ and the management feels that going forward, this book could be the growth engine of the loan book, backed by the current account and team transaction banking vertical, while expanding pan-India branches. In Q2FY24, the bank reported a growth of 22/8% YoY/QoQ in this book. We shall monitor the performance of the bank in this segment going forward to ascertain if the management is able to walk the talk here. Further, these SME loans are repo linked, thus reset at a faster pace, aiding bank's margins.

The yield on bank's advances stood at 10.88% for Q2FY24 as against 11.18% in Q1FY24 and 10.81% in Q2FY23.





(Source: Company, HDFC sec)

Long term strategy- "SBS 2030"

CSB Bank has embarked on a journey of Sustain - Build – Scale 2030 i.e., SBS 2030. The bank aims to Sustain its strong foundation and critical strengths, Build the future highway through investments in technology, digital infrastructure, partnerships, leadership, products, processes etc. and Scale the bank to the next level of Growth and Excellence.

The vision for the Bank is to create a Strong and Scalable Retail & SME franchise, while continuing to grow gold loan business. The bank is in process of setting up a retail asset franchise with all the products, systems and processes in place; these efforts will expand its presence. In parallel it is also building a strong CASA franchise through quality customer acquisition. The focus on the liability side will be on creating a granular retail book through seamless customer acquisition and onboarding process with a consistent user experience. SBS 2030 encompasses the expansion of branch networks across India, driving growth through existing and new verticals, enhancing business per branch and optimizing fixed costs through digitization and technology. The bank is planning to open at least 100 branches every year going forward.

In next three years, the bank aims to grow at a CAGR of 25%; post that, the rate of growth could be higher as the leverage will kick start from the investment in technology, credit, collection and payment ecosystem. By 2030, the retail book (more than 30%) will be major contributor followed by Gold, SME and Wholesale (largely shared equally). Cost to Income ratio is expected to go below 45% by 2030 which for Q2FY24 stood at 64.5%. Further, on the asset quality front, the target is to maintain GNPA below 2% and NNPA below 1% over a period.

Key enablers for SBS 2030	Key objectives
Good Governance Structure	Focus on Customer Acquisition
Clear Executable Strategy	Growth in granular liability franchise with ever improving CASA Ratio
Board Support and Guidance	Focus on strong operating performance with consistency
Growth Oriented Policy	Initial investments with defined payback period
Building Infrastructure – Physical, Hybrid or Digital	Well capitalized bank with adequate liquidity buffer to manage Economic & Credit Cycles
Robust and Efficient Customer Centric Process	Prudent treasury investment strategy viz. a viz. wholesale funded book growth with the right balance of Risk Vs. Return
Leadership with experience to build and scale franchise with long term vision and commitment	Well diversified retail book to manage cycles
Innovation – Agile / Digital	Relentless focus on Fee business & Non Interest Income earnings
	Enhance coverage, Create segmentation and Whitelist opportunities in Wholesale Business
	Focus on Asset quality, Risk management and strong Collection framework

(Source: Company, HDFC sec)

Digital Milestones:

(Source: Company, HDFC sec)

Risks & Concerns

- Any unfavorable change in rules and regulatory policies can have a negative impact on earnings outlook of the Bank.
- A big risk for the stock is future execution of the management strategy. Failure to abide by it or delay therein could impact financial performance which in turn could erode value for shareholders.
- The Fairfax Group had acquired a total of 50.09% stake at a cost of Rs.140 per share in the bank after which the bank came out with its IPO. Post IPO, the promoter group's stake was reduced to 49.7% in the bank which it continues to hold till date. This holding has to be gradually brought down as mandated by RBI over a period of 15 years from the completion of their investment in the Bank in 2018. Further, the RBI had mandated the promoter group to not sell any holding in the first five years of investment. This period is supposed to end in 2023. However, we do not expect the promoters to sell their stake in near future. Instead based on their advances growth the Bank could go for FPO bringing the stake of Fairfax down. We do not rule out possibility of partial exit for Fairfax in the secondary market over the medium term. Recently, the bank has also informed the exchanges that the RBI has allowed its promoter group to retain 26% stake in the bank instead of 15% at the end of 15 years.
- The bank has CASA Ratio at ~29.3% as of September 2023, which is lower compared to industry peers. We will remain watchful on this front especially in the time when liquidity is tight in the system.
- The bank is investing heavily in manpower and technology to be able to garner CASA deposits, retail & wholesale loans. It also has an ambitious plan of opening 100 new branches each year going forward. As a result, its opex and capex are rising. These along with the

rising interest rates, will have an impact on the costs of the bank. In such situation, the yield on advances becomes very important for the bank to manage; else profit margins would be detrimentally impacted.

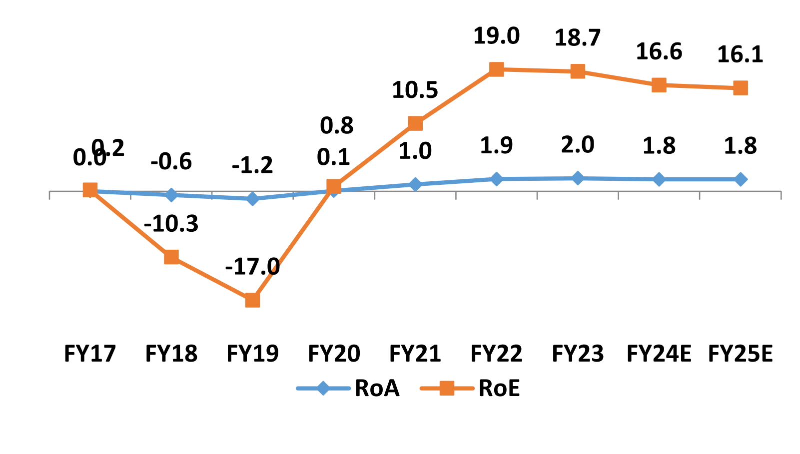
- Rise in G-sec yields could lead to MTM losses for the Bank. Further, it may also impact the loan growth as high interest rates negatively impacts the demand.
- A higher-than-expected deterioration in the asset quality could result in the erosion of the Tier I capital. Fresh formation of bad loans could keep provisioning high and return ratios compressed for a longer time. Further, any delay in the recovery, higher than expected haircuts or sharp rise in the slippages could impact the profitability and business growth prospects.
- Kerala, Tamil Nadu, Maharashtra, Andhra Pradesh and Karnataka together contribute 88% of Advances. Gold loan is 47% of the total loan book as of Q2FY24. This shows that the bank has high concentration both product offering wise as well as geographical presence wise. Emergence of any adverse developments in these geographies/segment could cast a significant negative impact on the bank's performance. The management has however expressed its intention to expand to West and Northern India in the coming years and focus on reducing its reliance on gold loans.
- A sudden decline in the market price of gold may adversely affect the company's financial condition, cash flows and earnings as it may be unable to realize the full value of its pledged gold, which exposes it to a potential loss.
- There was a news report suggesting that Fairfax (promoter) is interested in buying majority stake in IDBI Bank. If that is the case, Fairfax must either sell stake in CSB Bank or going forward may merge both the entities. The bids for the disinvestment in IDBI would open shortly. This could be an overhang on the stock price.
- The Bank has not paid dividend for several years despite healthy profits. This may dissuade some investors.
- Recently the RBI has increased risk weights of the banks in case of personal loans and loans to NBFCs. Though major chunk of the bank's loan book consists of gold loans which remains unaffected with this announcement, its personal loan book and NBFC book could see a slight slowdown in growth going ahead. Further, these changes can also add pressure on the bank's RoE and RoA.

Company Background:

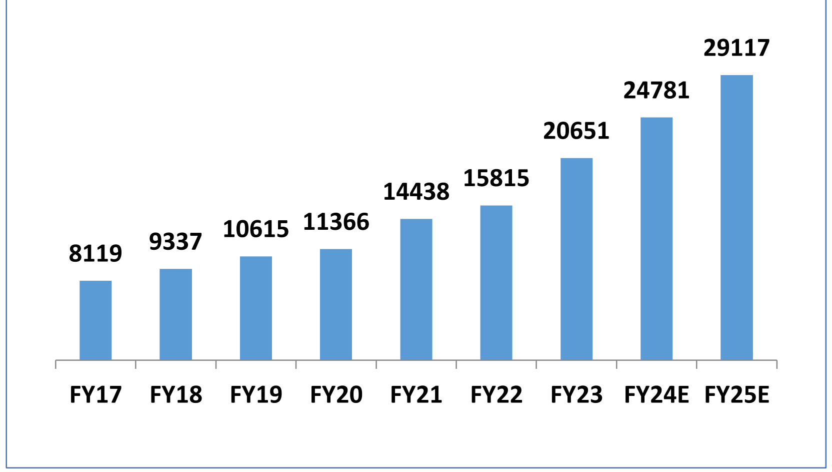
Established in 1920, CSB Bank Ltd (Formerly The Catholic Syrian Bank Limited) is one of the fastest growing private sector banks in India with a significant branch presence in South and steadily increasing network across India with a special thrust on Northern and Western part of the country. The Bank has four segment verticals, namely, SME Banking, Retail banking, Wholesale Banking and Treasury operations. In recent years, the Bank accelerated its transformation process to become a new-age, profit making Bank with innovative leadership, product development, digital banking technology and risk management capabilities.

It delivers the products and services through multiple channels, including 734 branches and 545 ATMs/CRMs spread across the country and various alternate channels such as micro-ATMs, debit cards, internet banking, mobile banking, point of sale services, and UPI.

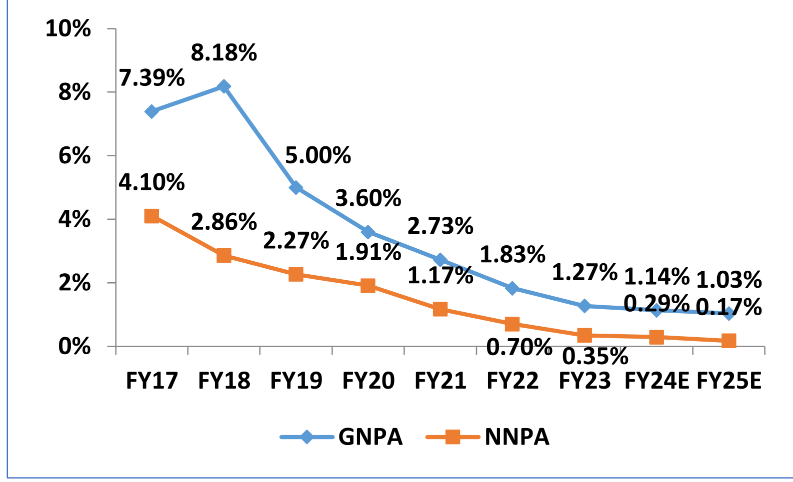
Return Ratios (%)



Loan Book Trend (Rs. In Cr)



Asset Quality Trend (%)



Financials

Income Statement

Particulars	FY21	FY22	FY23	FY24E	FY25E
Interest Income	1872	2038	2320	2817	3382
Interest Expenses	931	885	986	1272	1514
Net Interest Income	**941**	**1153**	**1334**	**1545**	**1868**
Non interest income	401	247	316	443	499
Operating Income	**1342**	**1400**	**1650**	**1988**	**2367**
Operating Expenses	729	786	942	1187	1414
PPP	613	614	707	801	953
Prov & Cont	321	-1	-26	28	69
Profit Before Tax	293	615	734	773	884
Tax	74	156	186	194	222
PAT	**218**	**459**	**547**	**579**	**662**

Balance Sheet

Particulars	FY21	FY22	FY23	FY24E	FY25E
Share Capital	174	174	174	174	174
Reserves & Surplus	2007	2478	3030	3609	4271
Shareholder funds	**2180**	**2651**	**3204**	**3782**	**4444**
Deposits	19140	20188	24506	27991	31814
Borrowings	1426	2007	783	1239	1456
Other Liab & Prov.	599	519	670	770	847
SOURCES OF FUNDS	**23345**	**25366**	**29162**	**33783**	**38562**
Cash & Bank Balance	1714	1574	1837	1232	1298
Investment	6126	7012	5849	6434	6755
Advances	14438	15815	20651	24781	29117
Fixed Assets	269	288	319	345	373
Other Assets	798	678	507	991	1019
TOTAL ASSETS	**23345**	**25366**	**29162**	**33783**	**38562**

Key Ratio

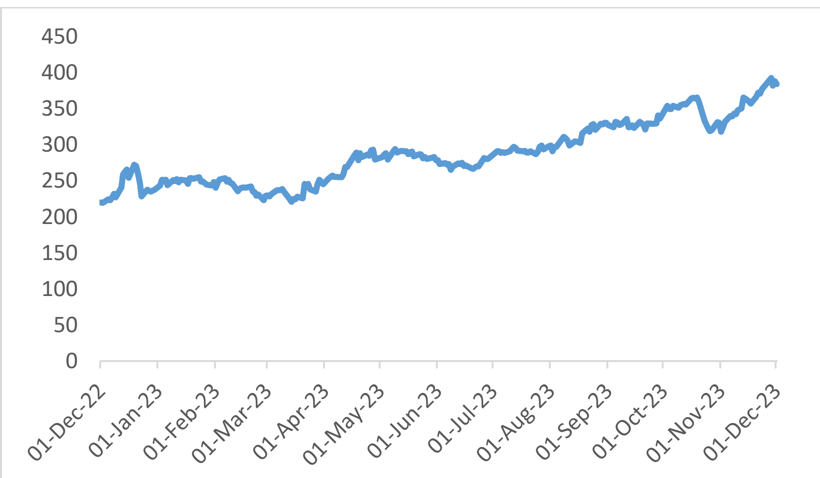
	FY21	FY22	FY23	FY24E	FY25E
Return Ratios					
Calc. Yield on adv	14.5%	13.5%	12.7%	12.4%	12.6%
Calc. Cost of funds	5.0%	4.1%	4.2%	4.4%	4.6%
NIM	4.9%	5.1%	5.3%	5.3%	5.5%
RoAE	10.5%	19.0%	18.7%	16.6%	16.1%
RoAA	1.0%	1.9%	2.0%	1.8%	1.8%
Asset Quality Ratios					
GNPA	2.7%	1.8%	1.3%	1.1%	1.0%
NNPA	1.2%	0.7%	0.3%	0.3%	0.2%
PCR	57.1%	61.6%	72.7%	74.6%	83.1%
Growth Ratios					
Advances	27.0%	9.5%	30.6%	20.0%	17.5%
NII	58.9%	22.5%	15.7%	15.8%	20.9%
PAT	1615.3%	110.2%	19.2%	5.7%	14.5%

(Source: Company, HDFC sec)

Key Ratio

	FY21	FY22	FY23	FY24E	FY25E
Valuation Ratios					
EPS	12.6	26.5	31.5	33.3	38.2
P/E	30.5	14.5	12.2	11.5	10.1
Adj. BVPS	115.9	146.4	180.5	213.8	253.2
P/ABV	3.3	2.6	2.1	1.8	1.5
Dividend per share	0.0	0.0	0.0	0.0	0.0
Other Ratios					
Cost-Income	54.3	56.2	57.1	59.7	59.7
CASA	32.2	33.7	32.2	29.9	29.1
CAR	21.4	25.9	27.1	26.1	26.9
Tier 1	20.0	24.3	25.9	25.1	26.0

One Year Price Chart



Varun Nitin Manek

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

Disclosure:

I, **Varun Nitin Manek**, Research Analyst, **(ACA)**, authors and the names subscribed to this report, hereby certify that all the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. SEBI conducted the inspection and based on their observations have issued advise/warning. The said observations have been complied with. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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