

# FIRST LIGHT

## RESEARCH

### RBL Bank | Target: Rs 200 | +10% | ADD

Heading in the right direction – upgrade to ADD

## SUMMARY

### RBL Bank

RBL Bank's (RBK) Q4FY21 PAT of Rs 0.8bn declined 34% YoY due to an 11% fall in NII and accelerated provisions. In a positive surprise, GNPA ratio improved 20bps QoQ and stress in the cards and microfinance segments was well within guided levels. RBK has recovered from the deposit scare, has raised coverage on unsecured retail loans and aims to improve PCR further in FY22. Moreover, the bank's intent to grow its secured book is a step in the right direction. Given the resilient asset quality, we upgrade from SELL to ADD with a Mar'22 TP of Rs 200 (vs. Rs 195).

[Click here for the full report.](#)

## TOP PICKS

### LARGE-CAP IDEAS

Company	Rating	Target
<a href="#">Cipla</a>	Buy	1,000
<a href="#">TCS</a>	Buy	3,780
<a href="#">Tech Mahindra</a>	Buy	1,190

### MID-CAP IDEAS

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	3,750
<a href="#">Greenply Industries</a>	Buy	195
<a href="#">Laurus Labs</a>	Buy	540
<a href="#">Transport Corp</a>	Buy	320

Source: BOBCAPS Research

### DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.60	(3bps)	(12bps)	96bps
India 10Y yield (%)	6.00	(3bps)	(17bps)	(8bps)
USD/INR	73.94	0.2	(1.1)	2.4
Brent Crude (US\$/bbl)	67.56	0.5	4.2	148.4
Dow	34,113	0.7	2.9	43.6
Shanghai	3,447	(0.8)	(1.1)	20.5
Sensex	48,719	(0.1)	(2.6)	53.6
India FII (US\$ mn)	30 Apr	MTD	CYTD	FYTD
FII-D	(122.3)	(365.0)	(2,392.3)	(365.0)
FII-E	(425.7)	(1,489.2)	5,837.2	(1,489.2)

Source: Bank of Baroda Economics Research

### BOBCAPS Research

research@bobcaps.in



**ADD**

TP: Rs 200 | ▲ 10%

**RBL BANK**

| Banking

| 04 May 2021

## Heading in the right direction – upgrade to ADD

RBL Bank's (RBK) Q4FY21 PAT of Rs 0.8bn declined 34% YoY due to an 11% fall in NII and accelerated provisions. In a positive surprise, GNPA ratio improved 20bps QoQ and stress in the cards and microfinance segments was well within guided levels. RBK has recovered from the deposit scare, has raised coverage on unsecured retail loans and aims to improve PCR further in FY22. Moreover, the bank's intent to grow its secured book is a step in the right direction. Given the resilient asset quality, we upgrade from SELL to ADD with a Mar'22 TP of Rs 200 (vs. Rs 195).

Vikesh Mehta

research@bobcaps.in

**Stress remains within guided levels:** We had expected relatively higher stress accretion for RBK than peers given its larger share of unsecured loans (~40% of portfolio). In contrast, the bank's slippage ratio remained stable at 2.6% of loans in Q4 while GNPA ratio declined 23bps QoQ to 4.34% on higher upgrades. GNPA ratio in microfinance stood at 3.7% vs. the 5.5% guidance, and credit cost in the cards business was around guided levels of 10.5%.

Ticker/Price	RBK IN/Rs 182
Market cap	US\$ 1.5bn
Shares o/s	598mn
3M ADV	US\$ 47.5mn
52wk high/low	Rs 274/Rs 106
Promoter/FPI/DII	0%/32%/68%

Source: NSE

**Focus on improving secured loan share:** RBK's loan book grew 4% QoQ as retail loans increased. Overall unsecured exposure is guided to reduce 8-10% by FY24 through trimming of corporate and other retail exposure. In addition, management aims to expand business in secured products such as gold loans and affordable housing, which should lend a fillip to growth.

## STOCK PERFORMANCE



Source: NSE

**Strong momentum in deposits:** Deposits grew 9% QoQ in Q4 despite rate rationalisation. CASA deposits increased ~12% QoQ and retail deposit share at 37% (vs. 33% in Q4FY20) has been improving steadily, ensuring granularity.

**Upgrade to ADD:** We retain estimates but upgrade the stock to ADD in light of the demonstrated resilience in asset quality and low valuations of 0.7x FY23E P/BV. Our Mar'22 TP of Rs 200 is set at an unchanged 0.8x FY23E P/BV.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	25,395	36,296	37,876	42,597	50,398
NII growth (%)	43.8	42.9	4.4	12.5	18.3
Adj. net profit (Rs mn)	8,670	5,057	5,078	10,894	15,075
EPS (Rs)	20.5	10.8	9.2	18.2	25.2
P/E (x)	8.9	16.8	19.8	10.0	7.2
P/BV (x)	1.0	0.9	0.9	0.8	0.7
ROA (%)	1.2	0.6	0.5	1.0	1.2
ROE (%)	12.2	5.6	4.4	8.3	10.6

Source: Company, BOBCAPS Research | P – Provisional



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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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