

**SELL**

TP: Rs 150 | ▼ 14%

**RBL BANK**

| Banking

| 28 October 2020

## Asset quality aided by loan classification standstill

RBL Bank's (RBK) Q2FY21 operating performance remained weak as NII growth slowed to 7% YoY and provisions stayed high. Collection efficiency in the credit card portfolio was ~90% and ~9% of the portfolio is still overdue. Covid-related provision buffer was raised to 1.2% of loans while FY21 credit cost guidance was maintained at around last year levels. NIM fell to 4.3% on interest reversal. Post the proposed capital raise of ~Rs 16bn from a 9.5% stake sale to Maple II, CET1 will improve to 17.4%. Maintain SELL with an unchanged Sep'21 TP of Rs 150.

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**Proforma GNPA largely stable:** Headline proforma NPA was stable at ~3.5% (including regulatory standstill, GNPA declined to 3.3%). Collection efficiency in the credit card portfolio was at ~90% (94% of pre-Covid levels), while 6.7% of the micro-banking portfolio is still overdue. About 9% of the credit card portfolio is currently overdue which includes ~5% of loans that have not paid dues since April. Management estimates credit costs in the credit card/micro-banking portfolio at ~10%/4% and continues to maintain overall credit cost guidance at around last year levels for FY21.

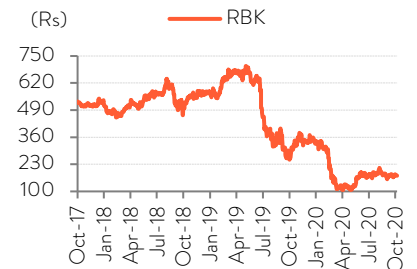
**Loan growth dips further; NIMs witnesses sharp decline:** RBK's loan book declined 4% YoY due to a steep 26% drop in the wholesale portfolio while the non-wholesale portfolio grew 23%. Business momentum is picking up in the MFI segment but the bank is facing collection issues in select pockets of West Bengal, Assam, Punjab and Maharashtra. NIM declined YoY to 4.3% which included a 50bps impact of proactive reversal of interest income loans expected to slip by Q3FY21.

**Maintain SELL:** Valuations look attractive at 0.8x FY22E P/BV but ROE is likely to remain subdued as potential stress emerges from a higher share of unsecured loans. Maintain SELL with a Sep'21 TP of Rs 150.

Ticker/Price	RBK IN/Rs 175
Market cap	US\$ 1.2bn
Shares o/s	509mn
3M ADV	US\$ 51.9mn
52wk high/low	Rs 391/Rs 102
Promoter/FPI/DII	0%/29%/71%

Source: NSE

## STOCK PERFORMANCE



Source: NSE

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	25,395	36,296	40,463	46,571	56,374
NII growth (%)	43.8	42.9	11.5	15.1	21.1
Adj. net profit (Rs mn)	8,670	5,057	5,148	9,657	12,730
EPS (Rs)	20.5	10.8	10.1	19.0	25.0
P/E (x)	8.6	16.2	17.3	9.2	7.0
P/BV (x)	1.0	0.8	0.8	0.8	0.7
ROA (%)	1.2	0.6	0.5	0.9	1.0
ROE (%)	12.2	5.6	4.8	8.5	10.3

Source: Company, BOBCAPS Research

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**FIG 1 – QUARTERLY PERFORMANCE**

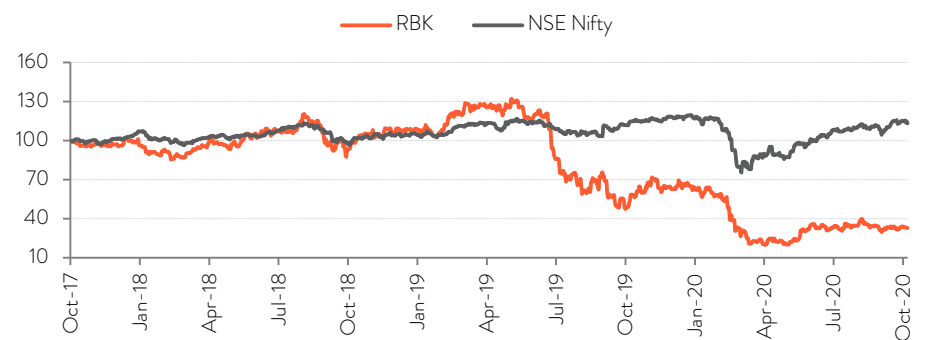
(Rs mn)	Q2FY21	Q2FY20	Q1FY21	YoY (%)	QoQ (%)	6MFY21	6MFY20	YoY (%)
<b>Income Statement</b>								
Interest income	20,773	21,262	22,350	(2.3)	(7.1)	43,123	41,488	3.9
Interest expense	11,452	12,575	11,937	(8.9)	(4.1)	23,389	24,628	(5.0)
<b>Net interest income</b>	<b>9,321</b>	<b>8,687</b>	<b>10,413</b>	<b>7.3</b>	<b>(10.5)</b>	<b>19,734</b>	<b>16,860</b>	<b>17.0</b>
Non-interest income	4,562	4,415	3,333	3.3	36.9	7,895	9,227	(14.4)
<b>Net total income</b>	<b>13,883</b>	<b>13,102</b>	<b>13,746</b>	<b>6.0</b>	<b>1.0</b>	<b>27,629</b>	<b>26,088</b>	<b>5.9</b>
Staff expenses	2,153	1,961	2,124	9.8	1.4	4,277	3,806	12.4
Other operating expenses	4,532	4,783	4,725	(5.2)	(4.1)	9,258	9,735	(4.9)
Operating expenses	6,685	6,744	6,849	(0.9)	(2.4)	13,534	13,541	(0.1)
<b>Pre-provisioning profit</b>	<b>7,198</b>	<b>6,358</b>	<b>6,897</b>	<b>13.2</b>	<b>4.4</b>	<b>14,095</b>	<b>12,546</b>	<b>12.3</b>
Total provisions	5,256	5,333	5,002	(1.4)	5.1	10,257	7,465	37.4
Profit before tax	1,942	1,025	1,896	89.4	2.4	3,838	5,081	(24.5)
Tax	500	482	483	3.8	3.5	984	1,868	(47.3)
<b>Profit after tax</b>	<b>1,442</b>	<b>543</b>	<b>1,412</b>	<b>165.4</b>	<b>2.1</b>	<b>2,854</b>	<b>3,214</b>	<b>(11.2)</b>
<b>Balance Sheet</b>								
Advances	561,621	584,761	566,830	(4.0)	(0.9)	561,621	584,761	(4.0)
Deposits	645,061	628,291	617,360	2.7	4.5	645,061	628,291	2.7
CASA ratio (%)	31.1	26.5	30.1	460bps	103bps	31.1	26.5	460bps
<b>Yields and margins (%)</b>								
Net interest margin	4.3	4.3	4.9	4bps	(51bps)	-	-	-
Yield on advances	12.3	12.1	13.0	20bps	(70bps)	-	-	-
Cost of funds	5.9	6.8	6.1	(90bps)	(20bps)	-	-	-
<b>Key ratios (%)</b>								
Cost/Income	48.2	51.5	49.8	(332bps)	(167bps)	49.0	51.9	(292bps)
Tax rate	25.8	47.0	25.5	(2,126bps)	26bps	25.6	36.8	(1,112bps)
Loan to Deposit ratio	87.1	93.1	91.8	(601bps)	(475bps)	87.1	93.1	(601bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	15.1	11.3	15.2	380bps	(10bps)	15.1	11.3	380bps
Total CAR	16.5	12.3	16.4	420bps	10bps	16.5	12.3	420bps
<b>Asset quality (Rs mn)</b>								
Gross NPAs	19,117	15,391	19,921	24.2	(4.0)	19,117	15,391	24.2
Net NPAs	7,758	9,123	9,327	(15.0)	(16.8)	7,758	9,123	(15.0)
Gross NPA ratio (%)	3.3	2.6	3.5	74bps	(11bps)	3.3	2.6	74bps
Net NPA ratio (%)	1.4	1.6	1.7	(18bps)	(27bps)	1.4	1.6	(18bps)
Coverage Ratio (%)	59.4	40.7	53.2	1,870bps	624bps	59.4	40.7	1,870bps

Source: Company, BOBCAPS Research

## Valuation methodology

At 0.8x FY22E P/BV, RBK's valuations look attractive. However, we maintain our SELL rating as we believe profitability is likely to remain subdued as potential stress emerges from the bank's large portfolio of unsecured loans. Using the two-stage Gordon Growth Model, we continue to value RBK at 0.6x Sep'22E P/BV for a Sep'21 target price of Rs 150.

**FIG 2 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Below-expected risks emerging from the unsecured portfolio can impact our slippage and credit cost estimates.
- An improving macro climate can drive above-estimated loan growth.
- Sharp scale-up in liability franchise can impact our margin assumptions.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net interest income</b>	<b>25,395</b>	<b>36,296</b>	<b>40,463</b>	<b>46,571</b>	<b>56,374</b>
NII growth (%)	43.8	42.9	11.5	15.1	21.1
Non-interest income	14,424	19,102	18,835	19,850	21,547
Total income	39,818	55,399	59,298	66,420	77,921
Operating expenses	20,420	27,883	29,697	34,907	42,376
Operating profit	19,398	27,516	29,601	31,513	35,545
Operating profit growth (%)	45.7	41.8	7.6	6.5	12.8
Provisions	6,407	19,989	22,719	18,603	18,527
PBT	12,992	7,528	6,882	12,910	17,018
Tax	4,322	2,471	1,734	3,253	4,289
<b>Reported net profit</b>	<b>8,670</b>	<b>5,057</b>	<b>5,148</b>	<b>9,657</b>	<b>12,730</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,670</b>	<b>5,057</b>	<b>5,148</b>	<b>9,657</b>	<b>12,730</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	4,267	5,087	5,087	5,087	5,087
Reserves & surplus	71,206	100,742	105,062	113,053	123,496
Net worth	75,473	105,829	110,149	118,140	128,583
Deposits	583,944	578,122	635,934	731,325	921,469
Borrowings	118,321	170,067	204,081	248,979	316,203
Other liabilities & provisions	25,850	35,759	41,480	48,532	56,782
<b>Total liabilities and equities</b>	<b>803,588</b>	<b>889,778</b>	<b>991,644</b>	<b>1,146,974</b>	<b>1,423,037</b>
Cash & bank balance	66,021	88,572	104,515	123,327	145,526
Investments	168,404	181,497	217,797	257,000	308,400
Advances	543,082	580,190	620,804	713,924	906,684
Fixed & Other assets	26,081	39,518	48,528	52,722	62,427
<b>Total assets</b>	<b>803,588</b>	<b>889,778</b>	<b>991,644</b>	<b>1,146,974</b>	<b>1,423,037</b>
Deposit growth (%)	33.0	(1.0)	10.0	15.0	26.0
Advances growth (%)	34.9	6.8	7.0	15.0	27.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	20.5	10.8	10.1	19.0	25.0
Dividend per share	2.5	3.8	1.4	2.8	3.8
Book value per share	176.9	208.0	216.5	232.2	252.8

Source: Company, BOBCAPS Research

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	8.6	16.2	17.3	9.2	7.0
P/BV	1.0	0.8	0.8	0.8	0.7
Dividend yield (%)	1.4	2.2	0.8	1.6	2.1

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	3.6	4.3	4.3	4.4	4.4
Non-interest income	2.0	2.3	2.0	1.9	1.7
Operating expenses	2.9	3.3	3.2	3.3	3.3
Pre-provisioning profit	2.7	3.2	3.1	2.9	2.8
Provisions	0.9	2.4	2.4	1.7	1.4
PBT	1.8	0.9	0.7	1.2	1.3
Tax	0.6	0.3	0.2	0.3	0.3
ROA	1.2	0.6	0.5	0.9	1.0
Leverage (x)	10.0	9.3	8.7	9.4	10.4
ROE	12.2	5.6	4.8	8.5	10.3

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	43.8	42.9	11.5	15.1	21.1
Pre-provisioning profit	45.7	41.8	7.6	6.5	12.8
EPS	28.2	(47.2)	(6.4)	87.6	31.8
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.7	4.5	4.5	4.6	4.6
Fees / Avg. assets	1.6	1.8	1.6	1.5	1.3
Cost-Income	51.3	50.3	50.1	52.6	54.4
ROE	12.2	5.6	4.8	8.5	10.3
ROA	1.2	0.6	0.5	0.9	1.0
<b>Asset quality (%)</b>					
GNPA	1.4	3.6	4.3	3.7	2.5
NNPA	0.7	2.1	1.8	1.5	0.8
Provision coverage	49.9	42.3	56.7	58.1	68.0
<b>Ratios (%)</b>					
Credit-Deposit	93.0	100.4	97.6	97.6	98.4
Investment-Deposit	28.8	31.4	34.2	35.1	33.5
CAR	13.5	16.4	15.9	14.8	13.9
Tier-1	12.1	15.3	14.8	13.8	13.0

Source: Company, BOBCAPS Research

## Disclaimer

### Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

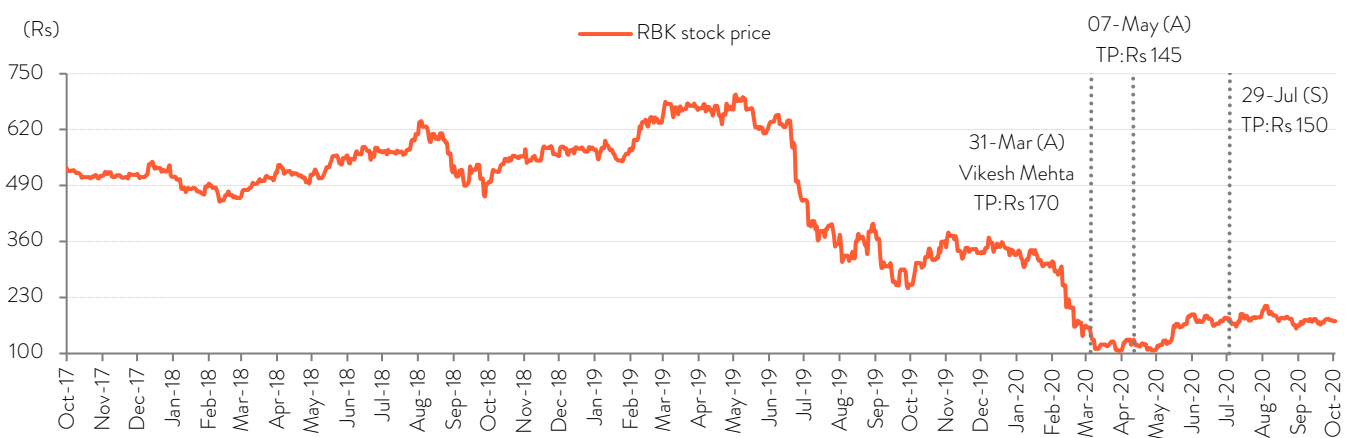
**ADD** – Expected return from >+5% to +15%

**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)

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): RBL BANK (RBK IN)



B – Buy, A – Add, R – Reduce, S – Sell

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