

ADD

TP: Rs 145 | ▲ 13%

RBL BANK

| Banking

| 07 May 2020

Operational beat but Covid-19 poses risks

RBL Bank's (RBK) Q4FY20 PAT at Rs 1.1bn (-54% YoY) was ahead of estimates due to an NII beat. The bank has a third of its portfolio by value under moratorium including a larger retail share. Slippages remained elevated at Rs 7bn while PCR improved to 64%. Credit cost in FY21 is guided to be largely similar to FY20. As on 30 April, deposits grew 4% over Q4 levels while government deposits were back to pre-Covid levels. We pare FY21-FY22 EPS by 40-50% on higher credit costs and slower growth, yielding a new Mar'21 TP of Rs 145 (vs. Rs 170). Retain ADD.

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One-third of portfolio under moratorium: According to management, 23%/24% of RBK's credit card/wholesale portfolio is under moratorium as on 30 April. The value of the retail portfolio under moratorium is relatively higher (46% of customers by number), taking ~33% of its overall loan book into moratorium. In addition to the 10% provision requirement on extending the asset classification benefit, RBK has made additional provisions worth ~Rs 1.2bn. Management expects credit costs to be higher in the credit card and MSME segments given Covid-19 but the MFI book could recover fast.

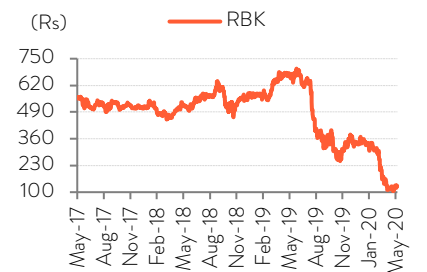
Slippages remain elevated but PCR improves to 64%: The SMA-2 book dipped marginally to 0.6% of loans. Slippages stayed high at Rs 7.1bn (Rs 10.5bn in Q3) as RBK recognised the balance Rs 3bn of its Rs 18bn stressed legacy loan pool as NPA. Reported PCR improved to 64% from 58% in Q3, as provisions on the credit card portfolio availing moratorium were accelerated and contingent provisions were built on the retail portfolio. Management indicated that PCR will continue to improve and credit costs in FY21 should hold at FY20 levels of ~3.4%.

Maintain ADD: We pare FY21-FY22 EPS 40-50% assuming higher credit costs and slower credit growth. We derive comfort from RBK's high CET-1 ratio of 15%. Maintain ADD; Mar'21 TP revised to Rs 145.

Ticker/Price	RBK IN/Rs 129
Market cap	US\$ 863.4mn
Shares o/s	508mn
3M ADV	US\$ 50.4mn
52wk high/low	Rs 716/Rs 102
Promoter/FPI/DII	0%/24%/76%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	17,663	25,395	36,296	38,020	43,543
NII growth (%)	44.6	43.8	42.9	4.7	14.5
Adj. net profit (Rs mn)	6,350	8,670	5,057	5,486	10,132
EPS (Rs)	16.0	20.5	10.8	10.8	19.9
P/E (x)	8.1	6.3	11.9	11.9	6.5
P/BV (x)	0.8	0.7	0.6	0.6	0.6
ROA (%)	1.1	1.2	0.6	0.6	0.9
ROE (%)	11.5	12.2	5.6	5.1	8.8

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	Q3FY20	YoY (%)	QoQ (%)	FY20P	FY19A	YoY (%)
Income Statement								
Interest income	22,082	18,341	21,573	20.4	2.4	85,144	63,007	35.1
Interest expense	11,873	10,954	12,347	8.4	(3.8)	48,847	37,612	29.9
Net interest income	10,210	7,387	9,227	38.2	10.7	36,296	25,395	42.9
Non-interest income	5,005	4,092	4,870	22.3	2.8	19,103	14,424	32.4
Net total income	15,215	11,480	14,096	32.5	7.9	55,399	39,818	39.1
Staff expenses	1,999	1,682	1,880	18.8	6.3	7,684	6,362	20.8
Other operating expenses	5,568	4,198	4,895	32.7	13.8	20,198	14,058	43.7
Operating expenses	7,567	5,880	6,775	28.7	11.7	27,883	20,420	36.5
Pre-provisioning profit	7,648	5,600	7,322	36.6	4.5	27,516	19,398	41.8
Total provisions	6,141	2,000	6,383	207.1	(3.8)	19,989	6,407	212.0
Profit before tax	1,508	3,600	939	(58.1)	60.6	7,528	12,992	(42.1)
Tax	364	1,128	239	(67.7)	52.1	2,471	4,322	(42.8)
Profit after tax	1,144	2,472	700	(53.7)	63.5	5,057	8,670	(41.7)
Balance Sheet								
Advances	580,191	543,082	596,350	6.8	(2.7)	580,191	543,082	6.8
Deposits	578,122	583,944	629,070	(1.0)	(8.1)	578,122	583,944	(1.0)
CASA ratio (%)	29.6	25.0	26.8	460bps	280bps	29.6	25.0	460bps
Yields and margins (%)								
Net interest margin	4.9	4.2	4.6	70bps	36bps	-	-	-
Yield on advances	12.5	11.8	12.3	70bps	20bps	-	-	-
Cost of funds	6.4	6.8	6.6	(40bps)	(20bps)	-	-	-
Key ratios (%)								
Cost/Income	49.7	51.2	48.1	(149bps)	167bps	50.3	51.3	(95bps)
Tax rate	24.1	31.3	25.5	(720bps)	(135bps)	32.8	33.3	(44bps)
Loan to Deposit ratio	100.4	93.0	94.8	736bps	556bps	100.4	93.0	736bps
Capital adequacy ratios (%)								
Tier 1	15.3	12.1	15.0	320bps	28bps	15.3	12.1	320bps
Total CAR	16.4	13.5	16.1	290bps	32bps	16.4	13.5	290bps
Asset quality (Rs mn)								
Gross NPAs	2,136,520	754,620	2,010,480	183.1	6.3	2,136,520	754,620	183.1
Net NPAs	1,189,370	372,740	1,236,410	219.1	(3.8)	1,189,370	372,740	219.1
Gross NPA ratio (%)	3.6	1.4	3.3	224bps	29bps	3.6	1.4	224bps
Net NPA ratio (%)	2.1	0.7	2.1	136bps	(2bps)	2.1	0.7	136bps
Coverage Ratio (%)	44.3	50.6	38.5	(627bps)	583bps	44.3	50.6	(627bps)

Source: Company, BOBCAPS Research

Valuation methodology

We expect RBK to continue growing much higher than the industry for the next few years and hence use the two-stage Gordon Growth Model to set our target price as it captures valuations in a high-growth stage.

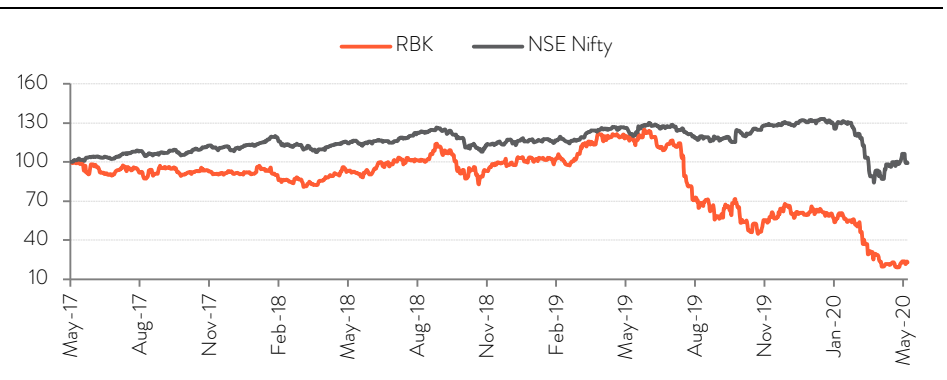
We pare our FY21-FY22 EPS estimates by 40-50% to factor in a further increase in credit costs and slower growth due to the economic shutdown. We derive comfort from RBK's high CET-1 ratio of 15%. Maintain ADD with a revised Mar'21 target price of Rs 145 (Rs 170 earlier).

FIG 2 – REVISED ESTIMATES

Particulars	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income (Rs mn)	38,020	43,543	40,709	52,061	(6.6)	(16.4)
Pre-provisioning profit	28,552	30,480	31,059	38,448	(8.1)	(20.7)
Net Profit (Rs mn)	5,486	10,132	11,271	16,643	(51.3)	(39.1)
EPS (Rs)	11	20	22	33	(51.3)	(39.1)

Source: BOBCAPS Research

FIG 3 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- RBK has a high dependence on the unsecured loan book, viz. the credit card and MFI businesses. Also, exposure to the LAP segment is high. Further deterioration in the macro environment can adversely affect our slippage and credit cost estimates.
- A tough macro climate can drive slower-than-expected loan growth.
- Delayed scale-up in liability franchise can impact our margin assumptions.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	17,663	25,395	36,296	38,020	43,543
NII growth (%)	44.6	43.8	42.9	4.7	14.5
Non-interest income	10,682	14,424	19,103	20,093	21,616
Total income	28,345	39,818	55,399	58,113	65,158
Operating expenses	15,035	20,420	27,883	29,561	34,678
Operating profit	13,310	19,398	27,516	28,552	30,480
Operating profit growth (%)	44.6	45.7	41.8	3.8	6.8
Provisions	3,645	6,407	19,989	21,217	16,934
PBT	9,665	12,992	7,528	7,335	13,546
Tax	3,315	4,322	2,471	1,848	3,414
Reported net profit	6,350	8,670	5,057	5,486	10,132
Adjustments	0	0	0	0	0
Adjusted net profit	6,350	8,670	5,057	5,486	10,132

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Equity capital	4,197	4,267	5,087	5,087	5,087
Reserves & surplus	62,643	71,206	100,743	105,346	113,730
Net worth	66,840	75,473	105,830	110,433	118,818
Deposits	439,023	583,944	578,122	635,934	731,325
Borrowings	92,614	118,321	170,067	204,081	248,979
Other liabilities & provisions	20,031	25,850	35,759	41,480	48,532
Total liabilities and equities	685,347	879,061	995,608	1,102,361	1,266,470
Cash & bank balance	42,844	66,021	88,572	104,515	123,327
Investments	154,473	168,404	181,497	217,797	257,000
Advances	402,678	543,082	580,191	620,804	713,924
Fixed & Other assets	18,512	26,081	39,518	48,813	53,400
Total assets	618,508	803,588	889,778	991,928	1,147,652
Deposit growth (%)	26.9	33.0	(1.0)	10.0	15.0
Advances growth (%)	36.7	34.9	6.8	7.0	15.0

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
EPS	16.0	20.5	10.8	10.8	19.9
Dividend per share	2.1	2.5	1.3	1.5	3.0
Book value per share	159.3	176.9	208.0	217.1	233.6

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
P/E	8.1	6.3	11.9	11.9	6.5
P/BV	0.8	0.7	0.6	0.6	0.6
Dividend yield (%)	1.6	1.9	1.0	1.2	2.3

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Net interest income	3.2	3.6	4.3	4.0	4.1
Non-interest income	1.9	2.0	2.3	2.1	2.0
Operating expenses	2.7	2.9	3.3	3.1	3.2
Pre-provisioning profit	2.4	2.7	3.2	3.0	2.8
Provisions	0.7	0.9	2.4	2.3	1.6
PBT	1.7	1.8	0.9	0.8	1.3
Tax	0.6	0.6	0.3	0.2	0.3
ROA	1.1	1.2	0.6	0.6	0.9
Leverage (x)	10.0	10.0	9.3	8.7	9.3
ROE	11.5	12.2	5.6	5.1	8.8

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Net interest income	44.6	43.8	42.9	4.7	14.5
Pre-provisioning profit	44.6	45.7	41.8	3.8	6.8
EPS	25.4	28.2	(47.2)	(0.3)	84.7
Profitability & Return ratios (%)					
Net interest margin	3.3	3.7	4.5	4.3	4.3
Fees / Avg. assets	1.3	1.6	1.8	1.7	1.6
Cost-Income	53.0	51.3	50.3	50.9	53.2
ROE	11.5	12.2	5.6	5.1	8.8
ROA	1.1	1.2	0.6	0.6	0.9
Asset quality (%)					
GNPA	1.4	1.4	3.6	4.5	4.5
NNPA	0.8	0.7	2.1	2.5	2.0
Provision coverage	44.1	49.9	42.3	43.8	55.1
Ratios (%)					
Credit-Deposit	91.7	93.0	100.4	97.6	97.6
Investment-Deposit	35.2	28.8	31.4	34.2	35.1
CAR	15.3	13.5	16.2	15.7	14.7
Tier-1	13.6	12.1	15.1	14.6	13.7

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

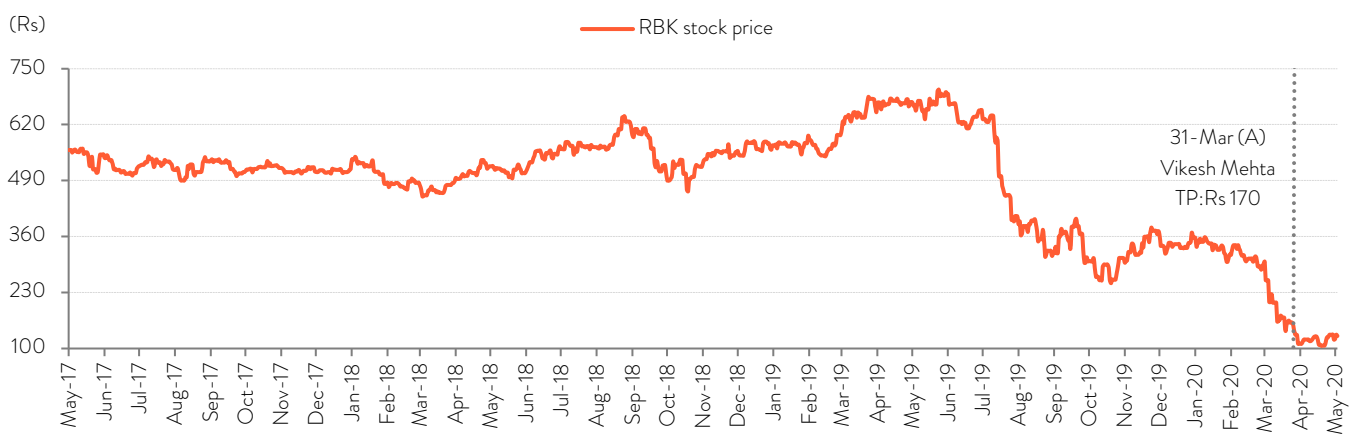
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: RBL BANK (RBK IN)



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

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