

**SELL**

TP: Rs 150 | ▼ 18%

**RBL BANK**

| Banking

| 29 July 2020

## Potential stress to keep ROE subdued – cut to SELL

RBL Bank's (RBK) Q1FY21 PAT at Rs 1.4bn was below our estimate as non-interest income fell 30% YoY due to lower credit offtake, a conservative approach and reduced credit card income. RBK's Covid-related provision buffer stands at 0.6% of loans, which we believe is low considering the nature of its portfolio. Overall moratorium share declined to 13.7% (vs. 33% earlier), but retail share remained high at 30% with credit card/MFI at 21%/35%. Downgrade from ADD to SELL as potential stress on the large unsecured book is likely to mute ROE.

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**Moratorium share in retail remains at ~30%:** RBK's share of loans under moratorium phase-2 declined to 13.7% vs. 33% earlier as the share of wholesale loans declined to 5% (vs. 22% in phase-1). However, retail share remained high at 30% (~33% in Q4), with credit card/MFI loans under moratorium at 21%/35%. Management highlighted that 58% of customers in the credit card segment rolled over to phase-2 of the moratorium. The bank prudently made added Covid-related provisions worth Rs 2.4bn, a majority of which was towards the credit card portfolio (covering ~10% of the moratorium book).

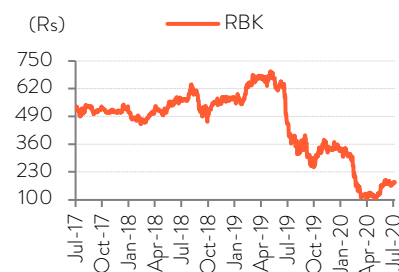
**Loan book flat, NIMs decline:** Loan growth remained muted, as anticipated, while NIM declined 8bps QoQ to 4.85%. Management indicated that ~95% of centre meetings in its micro banking business were held in June and 62% of payments were collected. Disbursements have started where payments are regular but normalcy is likely to return only from Dec'20. RBK has disbursed ~Rs 1.9bn under the Emergency Credit Guarantee Scheme.

**Downgrade to 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. We cut FY21/FY22 EPS by ~5% each and roll to a Sep'21 TP of Rs 150 (Rs 145 earlier), resetting our target P/BV to 0.6x (0.7x earlier). SELL.

Ticker/Price	RBK IN/Rs 182
Market cap	US\$ 1.2bn
Shares o/s	509mn
3M ADV	US\$ 85.9mn
52wk high/low	Rs 461/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)	8.9	16.8	18.0	9.6	7.3
P/BV (x)	1.0	0.9	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)	Q1FY21	Q1FY20	Q4FY20	YoY (%)	QoQ (%)
<b>Income Statement</b>					
<b>Interest income</b>	<b>22,350</b>	<b>20,227</b>	<b>22,082</b>	<b>10.5</b>	<b>1.2</b>
Interest expense	11,937	12,054	11,873	(1.0)	0.5
<b>Net interest income</b>	<b>10,413</b>	<b>8,173</b>	<b>10,210</b>	<b>27.4</b>	<b>2.0</b>
Non-interest income	3,333	4,812	5,005	(30.7)	(33.4)
Net total income	13,746	12,985	15,215	5.9	(9.7)
Staff expenses	2,124	1,845	1,999	15.1	6.3
Other operating expenses	4,725	4,952	5,568	(4.6)	(15.1)
Operating expenses	6,849	6,797	7,567	0.8	(9.5)
Pre-provisioning profit	6,897	6,188	7,648	11.5	(9.8)
<b>Total provisions</b>	<b>5,002</b>	<b>2,132</b>	<b>6,141</b>	<b>134.6</b>	<b>(18.6)</b>
<b>Profit before tax</b>	<b>1,896</b>	<b>4,056</b>	<b>1,508</b>	<b>(53.3)</b>	<b>25.7</b>
Tax	483	1,386	364	(65.1)	32.8
<b>Profit after tax</b>	<b>1,412</b>	<b>2,671</b>	<b>1,144</b>	<b>(47.1)</b>	<b>23.5</b>
<b>Balance Sheet</b>					
Advances	566,830	568,370	580,191	(0.3)	(2.3)
Deposits	617,360	608,110	578,122	1.5	6.8
CASA ratio (%)	30.1	25.8	29.6	425bps	47bps
<b>Yields and margins (%)</b>					
Net interest margin	4.9	4.3	4.9	54bps	(8bps)
Yield on advances	13.0	12.0	12.5	100bps	50bps
Cost of funds	6.1	6.8	6.4	(70bps)	(30bps)
<b>Key ratios (%)</b>					
Cost/Income	49.8	52.3	49.7	(252bps)	9bps
Tax rate	25.5	34.2	24.1	(866bps)	136bps
Loan to Deposit ratio	91.8	93.5	100.4	(165bps)	(854bps)
<b>Capital adequacy ratios (%)</b>					
Tier 1	15.2	11.3	15.3	390bps	(10bps)
Total CAR	16.4	12.4	16.4	400bps	0bps
<b>Asset quality (Rs mn)</b>					
Gross NPAs	19,921	7,892	21,365	152.4	(6.8)
Net NPAs	9,327	3,716	11,894	151.0	(21.6)
Gross NPA ratio (%)	3.5	1.4	3.6	207bps	(17bps)
Net NPA ratio (%)	1.7	0.7	2.1	100bps	(40bps)
Coverage Ratio (%)	53.2	52.9	44.3	27bps	885bps

Source: Company, BOBCAPS Research

## Valuation methodology

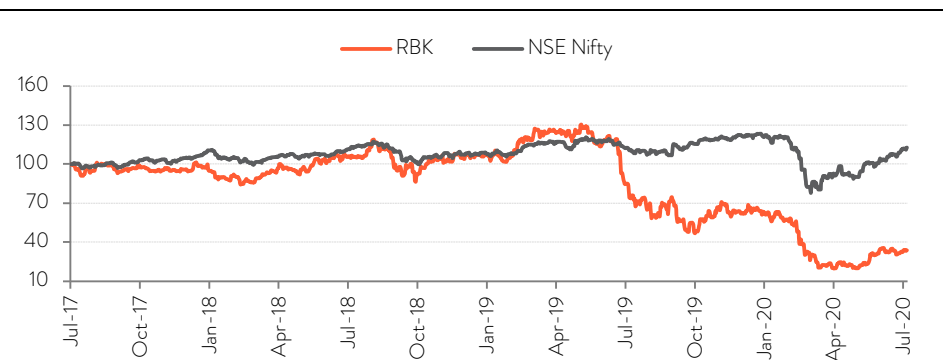
At 0.8x FY22E P/BV, RBK's valuations look attractive. ROE, however, is likely to remain subdued as potential stress emerges from the large portfolio of unsecured loans. We pare our FY21-FY22 EPS estimates by 5-6% as we tweak revenue growth assumptions and model for higher provisions. Using the two-stage Gordon Growth Model, we now value RBK at 0.6x P/BV vs. 0.7x earlier and downgrade the stock from ADD to SELL, rolling forward to a revised Sep'21 target price of Rs 150 (Rs 145 earlier).

**FIG 2 – REVISED ESTIMATES**

Particulars	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net interest income (Rs mn)	40,463	46,571	38,020	43,543	6.4	7.0
Pre-provisioning profit	29,601	31,513	28,552	30,480	3.7	3.4
Net Profit (Rs mn)	5,148	9,657	5,486	10,132	(6.2)	(4.7)
EPS (Rs)	10	19	11	20	(6.2)	(4.7)

Source: BOBCAPS Research

**FIG 3 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

- Lower than expected risks emerging from the unsecured portfolio can impact our slippages and credit costs estimates.
- An easing macro climate can drive higher-than-expected 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	8.9	16.8	18.0	9.6	7.3
P/BV	1.0	0.9	0.8	0.8	0.7
Dividend yield (%)	1.4	2.1	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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