

SELL

TP: Rs 195 | ▼ 9%

RBL BANK

| Banking

| 28 January 2021

Weak asset quality; elevated provisions – maintain SELL

RBL Bank's (RBK) PAT was largely in line at Rs 1.5bn. Proforma GNPA ratio rose ~100bps QoQ to 4.6% driven by slippages of ~Rs 15bn, largely retail-led. RBK has adequately provided for the same by using contingent provisions. Stress in the micro banking and business loan portfolios is proving higher than anticipated. The restructured book stood at 0.9% and is guided to rise to 1.5% by Q4. We raise our TP to Rs 195 (vs. Rs 150) as we hike FY21-FY23 EPS 8-15%, roll to Mar'23 valuations and now assign the stock a 0.8x P/BV multiple.

Vikesh Mehta

research@bobcaps.in

Stress on asset quality yet to run its course: RBK's proforma GNPA ratio climbed sharply to 4.6% (vs. 3.5% in Q2) owing to elevated slippages worth Rs 14.7bn emerging primarily from the retail portfolio (Rs 13bn). Proforma GNPA ratio in the credit card portfolio was at 5.7% and the bank expects it to remain stable in Q4. But the micro banking/business loan portfolios could see increases from 2.6%/4.5% currently to ~5.5%/6% in Q4. The bank has used ~50% of its Q2 contingency buffer to the extent of ~Rs 3bn. Collection efficiency is back to pre-Covid levels in the credit card portfolio, stable in the micro banking business at 92%, and at 96% of normal levels in business loans.

Ticker/Price	RBK IN/Rs 215
Market cap	US\$ 1.5bn
Shares o/s	509mn
3M ADV	US\$ 60.1mn
52wk high/low	Rs 347/Rs 102
Promoter/FPI/DII	0%/29%/71%

Source: NSE

Growth remains elusive: RBK's loan book declined 5% YoY given a 25% drop in the wholesale portfolio. Retail advances grew 16% YoY with 30% growth in the credit card portfolio. The new card business has returned to pre-Covid levels and its market share has improved to 4.8%. However, the bank remains cautious on growth in the micro banking and business loan portfolios. NIM declined 15bps QoQ to 4.2% due to interest reversals.

STOCK PERFORMANCE



Source: NSE

Maintain SELL: We continue to believe that higher credit costs will keep ROE subdued (at ~10% by FY23E). Valuing the stock at 0.8x P/BV (0.6x earlier), we roll to a new Mar'22 TP of Rs 195.

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	25,395	36,296	37,809	42,195	49,320
NII growth (%)	43.8	42.9	4.2	11.6	16.9
Adj. net profit (Rs mn)	8,670	5,057	5,570	10,622	14,604
EPS (Rs)	20.5	10.8	10.1	17.8	24.4
P/E (x)	10.5	19.9	21.4	12.1	8.8
P/BV (x)	1.2	1.0	1.0	1.0	0.9
ROA (%)	1.2	0.6	0.6	1.0	1.2
ROE (%)	12.2	5.6	4.8	8.1	10.4

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	Q2FY21	YoY (%)	QoQ (%)	9MFY21	9MFY20	YoY (%)
Income Statement								
Interest income	19,799	21,573	20,773	(8.2)	(4.7)	62,921	63,062	(0.2)
Interest expense	10,717	12,347	11,452	(13.2)	(6.4)	34,106	36,975	(7.8)
Net interest income	9,082	9,227	9,321	(1.6)	(2.6)	28,815	26,087	10.5
Non-interest income	5,799	4,870	4,562	19.1	27.1	13,694	14,097	(2.9)
Net total income	14,880	14,096	13,883	5.6	7.2	42,509	40,184	5.8
Staff expenses	2,107	1,880	2,153	12.1	(2.1)	6,384	5,686	12.3
Other operating expenses	4,725	4,895	4,532	(3.5)	4.3	13,983	14,630	(4.4)
Operating expenses	6,832	6,775	6,685	0.9	2.2	20,366	20,316	0.2
Pre-provisioning profit	8,048	7,322	7,198	9.9	11.8	22,143	19,868	11.5
Total provisions	6,098	6,383	5,256	(4.5)	16.0	16,355	13,848	18.1
Profit before tax	1,951	939	1,942	107.8	0.4	5,788	6,020	(3.9)
Tax	480	239	500	100.5	(4.1)	1,464	2,107	(30.5)
Profit after tax	1,471	700	1,442	110.2	2.0	4,324	3,913	10.5
Balance Sheet								
Advances	564,440	596,350	561,621	(5.4)	0.5	564,440	596,350	(5.4)
Deposits	671,840	629,070	645,061	6.8	4.2	671,840	629,070	6.8
CASA ratio (%)	31.1	26.8	31.1	426bps	(4bps)	31.1	26.8	426bps
Yields and margins (%)								
Net interest margin	4.2	4.6	4.3	(38bps)	(15bps)	-	-	-
Yield on advances	11.5	12.3	12.3	(80bps)	(80bps)	-	-	-
Cost of funds	5.6	6.6	5.9	(100bps)	(30bps)	-	-	-
Key ratios (%)								
Cost/Income	45.9	48.1	48.2	(215bps)	(224bps)	47.9	50.6	(265bps)
Tax rate	24.6	25.5	25.8	(89bps)	(116bps)	25.3	35.0	(971bps)
Loan to Deposit ratio	84.0	94.8	87.1	(1,078bps)	(305bps)	84.0	94.8	(1,078bps)
Capital adequacy ratios (%)								
Tier 1	17.1	15.0	15.1	208bps	200bps	17.1	15.0	208bps
Total CAR	17.9	16.1	16.5	182bps	140bps	17.9	16.1	182bps
Asset quality (Rs mn)								
Gross NPAs	10,502	20,105	19,117	(47.8)	(45.1)	10,502	20,105	(47.8)
Net NPAs	4,025	12,364	7,758	(67.4)	(48.1)	4,025	12,364	(67.4)
Gross NPA ratio (%)	1.8	3.3	3.3	(149bps)	(150bps)	1.8	3.3	(149bps)
Net NPA ratio (%)	0.7	2.1	1.4	(136bps)	(67bps)	0.7	2.1	(136bps)
Coverage Ratio (%)	61.7	38.5	59.4	2,318bps	226bps	61.7	38.5	2,318bps

Source: Company, BOBCAPS Research

Valuation methodology

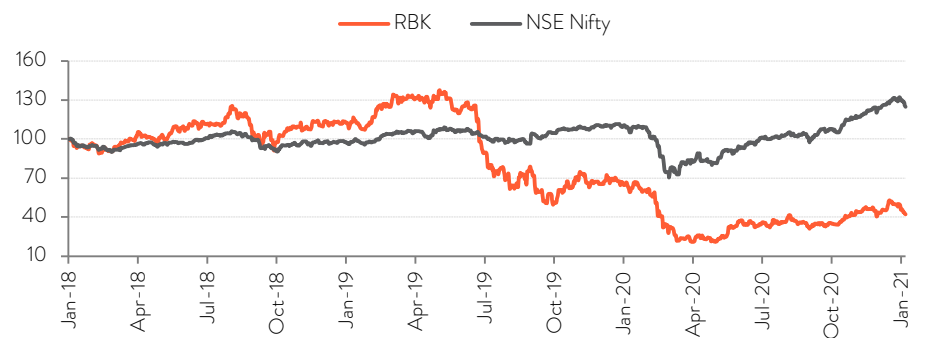
We raise our FY21-FY23 EPS estimates by 8-15% post Q3 but continue to believe that higher credit costs will weigh on RBK's profitability in the near term. Valuing the stock at 0.8x P/BV (0.6x earlier), we roll forward to a new Mar'22 target price of Rs 195 (Rs 150 earlier). Maintain SELL.

FIG 2 – REVISED ESTIMATES

Particulars	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Net interest income (Rs mn)	37,809	42,195	49,320	40,463	46,571	56,374	(6.6)	(9.4)	(12.5)
Pre-provisioning profit	30,042	33,146	38,338	29,601	31,513	35,545	1.5	5.2	7.9
Net Profit (Rs mn)	5,570	10,622	14,604	5,148	9,657	12,730	8.2	10.0	14.7
EPS (Rs)	10	18	24	9	16	21	8.1	9.8	14.5

Source: BOBCAPS Research

FIG 3 – 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	25,395	36,296	37,809	42,195	49,320
NII growth (%)	43.8	42.9	4.2	11.6	16.9
Non-interest income	14,424	19,102	19,709	20,962	22,716
Total income	39,818	55,399	57,518	63,157	72,036
Operating expenses	20,420	27,883	27,476	30,011	33,698
Operating profit	19,398	27,516	30,042	33,146	38,338
Operating profit growth (%)	45.7	41.8	9.2	10.3	15.7
Provisions	6,407	19,989	22,595	18,946	18,815
PBT	12,992	7,528	7,447	14,200	19,524
Tax	4,322	2,471	1,877	3,578	4,920
Reported net profit	8,670	5,057	5,570	10,622	14,604
Adjustments	0	0	0	0	0
Adjusted net profit	8,670	5,057	5,570	10,622	14,604

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity capital	4,267	5,087	5,984	5,984	5,984
Reserves & surplus	71,206	100,742	120,191	128,981	141,065
Net worth	75,473	105,829	126,175	134,964	147,049
Deposits	583,944	578,122	647,497	744,621	893,546
Borrowings	118,321	170,067	144,557	156,122	171,734
Other liabilities & provisions	25,850	35,759	41,480	48,532	56,782
Total liabilities and equities	803,588	889,778	959,709	1,084,239	1,269,111
Cash & bank balance	66,021	88,572	104,515	123,327	145,526
Investments	168,404	181,497	254,096	299,834	359,800
Advances	543,082	580,190	539,577	593,535	700,371
Fixed & Other assets	26,081	39,518	61,521	67,543	63,413
Total assets	803,588	889,778	959,709	1,084,239	1,269,111
Deposit growth (%)	33.0	(1.0)	12.0	15.0	20.0
Advances growth (%)	34.9	6.8	(7.0)	10.0	18.0

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
EPS	20.5	10.8	10.1	17.8	24.4
Dividend per share	2.5	3.8	1.3	2.7	3.7
Book value per share	176.9	208.0	210.9	225.6	245.7

Source: Company, BOBCAPS Research

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
P/E	10.5	19.9	21.4	12.1	8.8
P/BV	1.2	1.0	1.0	1.0	0.9
Dividend yield (%)	1.2	1.8	0.6	1.2	1.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Net interest income	3.6	4.3	4.1	4.1	4.2
Non-interest income	2.0	2.3	2.1	2.1	1.9
Operating expenses	2.9	3.3	3.0	2.9	2.9
Pre-provisioning profit	2.7	3.2	3.2	3.2	3.3
Provisions	0.9	2.4	2.4	1.9	1.6
PBT	1.8	0.9	0.8	1.4	1.7
Tax	0.6	0.3	0.2	0.4	0.4
ROA	1.2	0.6	0.6	1.0	1.2
Leverage (x)	10.0	9.3	8.0	7.8	8.3
ROE	12.2	5.6	4.8	8.1	10.4

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Net interest income	43.8	42.9	4.2	11.6	16.9
Pre-provisioning profit	45.7	41.8	9.2	10.3	15.7
EPS	28.2	(47.2)	(6.9)	76.4	37.5
Profitability & Return ratios (%)					
Net interest margin	3.7	4.5	4.3	4.4	4.5
Fees / Avg. assets	1.6	1.8	1.7	1.6	1.5
Cost-Income	51.3	50.3	47.8	47.5	46.8
ROE	12.2	5.6	4.8	8.1	10.4
ROA	1.2	0.6	0.6	1.0	1.2
Asset quality (%)					
GNPA	1.4	3.6	4.9	4.0	2.7
NNPA	0.7	2.1	2.1	1.3	0.5
Provision coverage	49.9	42.3	55.9	66.7	82.1
Ratios (%)					
Credit-Deposit	93.0	100.4	83.3	79.7	78.4
Investment-Deposit	28.8	31.4	39.2	40.3	40.3
CAR	13.5	16.4	18.0	16.7	15.7
Tier-1	12.1	15.3	16.9	15.7	14.8

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

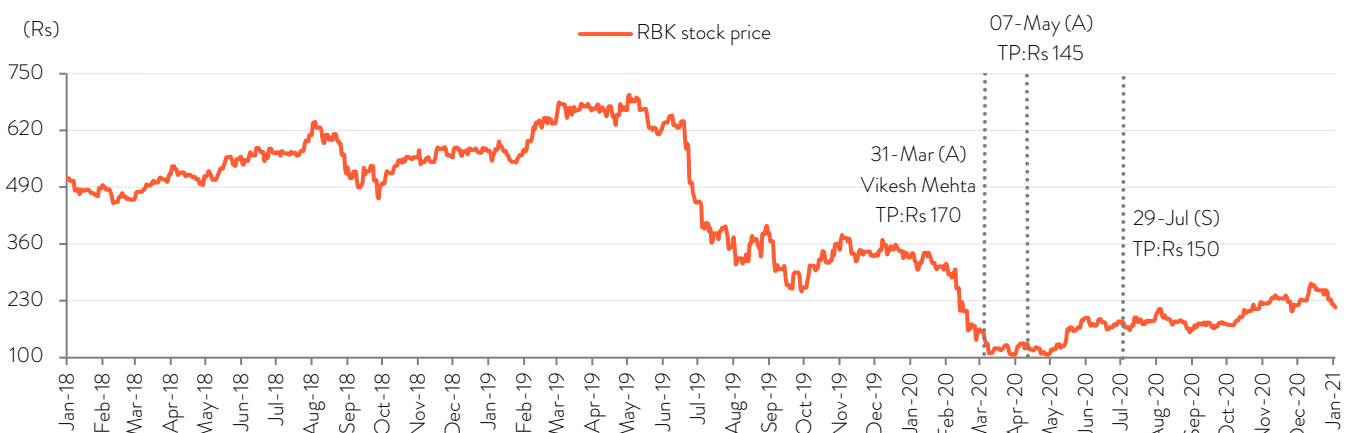
ADD – Expected return from >+5% to +15%

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

Rating distribution

As of 31 December 2020, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 14 have ADD ratings, 6 are rated REDUCE and 25 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.