

**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%.

**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.

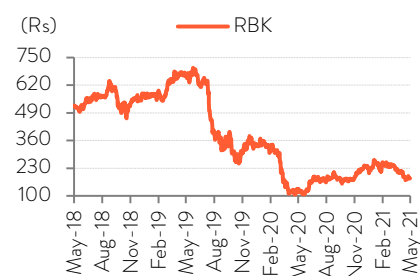
**Strong momentum in deposits:** Deposits grew 9% QoQ in Q4 despite rate rationalisation. CASA deposits increased ~12% QoQ and retail deposit share at 37% (vs. 33% in Q4FY20) has been improving steadily, ensuring granularity.

**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.

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

## STOCK PERFORMANCE



Source: NSE

## 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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**FIG 1 – QUARTERLY PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	Q3FY21	YoY (%)	QoQ (%)	FY21	FY20	YoY (%)
<b>Income Statement</b>								
Interest income	19,224	22,082	19,799	(12.9)	(2.9)	82,145	85,144	(3.5)
Interest expense	10,164	11,873	10,717	(14.4)	(5.2)	44,270	48,847	(9.4)
<b>Net interest income</b>	<b>9,060</b>	<b>10,210</b>	<b>9,082</b>	<b>(11.3)</b>	<b>(0.2)</b>	<b>37,876</b>	<b>36,296</b>	<b>4.4</b>
Non-interest income	6,884	5,005	5,799	37.5	18.7	20,578	19,103	7.7
<b>Net total income</b>	<b>15,945</b>	<b>15,215</b>	<b>14,880</b>	<b>4.8</b>	<b>7.2</b>	<b>58,454</b>	<b>55,399</b>	<b>5.5</b>
Staff expenses	2,070	1,999	2,107	3.6	(1.8)	8,454	7,684	10.0
Other operating expenses	5,110	5,568	4,725	(8.2)	8.1	19,092	20,198	(5.5)
Operating expenses	7,179	7,567	6,832	(5.1)	5.1	27,546	27,883	(1.2)
<b>Pre-provisioning profit</b>	<b>8,765</b>	<b>7,648</b>	<b>8,048</b>	<b>14.6</b>	<b>8.9</b>	<b>30,908</b>	<b>27,516</b>	<b>12.3</b>
Total provisions	7,663	6,141	6,098	24.8	25.7	24,017	19,989	20.2
Profit before tax	1,103	1,508	1,951	(26.9)	(43.5)	6,891	7,528	(8.5)
Tax	349	364	480	(4.0)	(27.2)	1,813	2,471	(26.6)
<b>Profit after tax</b>	<b>753</b>	<b>1,144</b>	<b>1,471</b>	<b>(34.1)</b>	<b>(48.8)</b>	<b>5,078</b>	<b>5,057</b>	<b>0.4</b>
<b>Balance Sheet</b>								
Advances	586,225	580,191	564,440	1.0	3.9	586,225	580,191	1.0
Deposits	731,213	578,122	671,840	26.5	8.8	731,213	578,122	26.5
CASA ratio (%)	31.8	29.6	31.1	221bps	76bps	31.8	29.6	221bps
<b>Yields and margins (%)</b>								
Net interest margin	4.2	4.9	4.2	(76bps)	(2bps)			
Yield on advances	11.2	12.5	11.5	(130bps)	(30bps)			
Cost of funds	5.3	6.4	5.6	(105bps)	(29bps)			
<b>Key ratios (%)</b>								
Cost/Income	45.0	49.7	45.9	(470bps)	(89bps)	47.1	50.3	(321bps)
Tax rate	31.7	24.1	24.6	754bps	708bps	26.3	32.8	(652bps)
Loan to Deposit ratio	80.2	100.4	84.0	(2,019bps)	(384bps)	80.2	100.4	(2,019bps)
<b>Capital adequacy ratios (%)</b>								
Tier 1	16.6	15.3	17.1	130bps	(50bps)	16.6	15.3	130bps
Total CAR	17.5	16.4	17.9	110bps	(40bps)	17.5	16.4	110bps
<b>Asset quality (Rs mn)</b>								
Gross NPAs	26,015	21,365	10,502	21.8	147.7	26,015	21,365	21.8
Net NPAs	12,414	11,894	4,025	4.4	208.4	12,414	11,894	4.4
Gross NPA ratio (%)	4.3	3.6	4.6	72bps	(22bps)	4.3	3.6	72bps
Net NPA ratio (%)	2.1	2.1	0.7	7bps	141bps	2.1	2.1	7bps
Credit costs (%)	4.6	4.0	4.5	60bps	8bps	4.1	3.5	58bps
Coverage Ratio (%)	52.3	44.3	61.7	795bps	(939bps)	52.3	44.3	795bps

Source: Company, BOBCAPS Research | GNPA and NNPA ratio in Q3FY21 are on proforma basis

## Valuation methodology

We adjust our FY22-FY23 EPS estimates for RBK only marginally as we believe our credit cost assumptions of 315-270bps adequately reflect the stress that could emerge from the unsecured businesses. At the same time, we upgrade the stock from SELL to ADD given that it is currently trading at low valuations of 0.7x FY23E PBV and asset quality has displayed resilience in Q4FY21, with overall stress remaining well within guided levels despite the Supreme Court vacating its stay on NPA recognition. In addition, the bank is headed in the right direction with its focus on trimming unsecured exposure and strengthening the balance sheet.

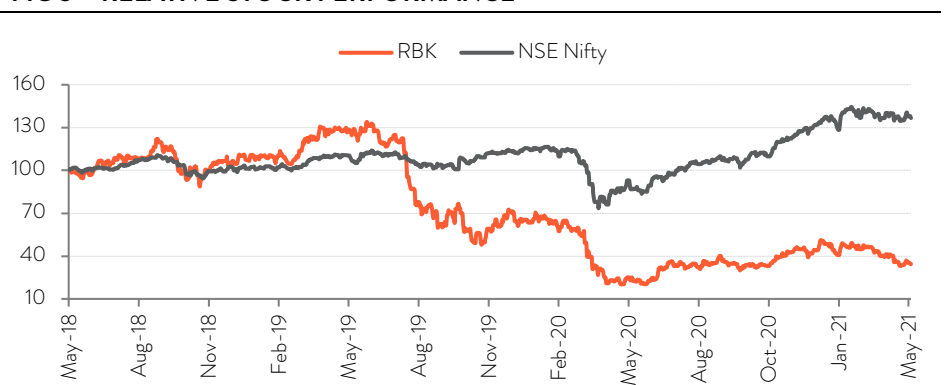
Post estimate revision, our Mar'22 target price rises slightly to Rs 200 (Rs 195 earlier). We retain our target FY23E P/BV multiple of 0.8x given the resurgence in Covid cases and potentially slow normalisation of the bank's earnings trajectory. We expect RBK to deliver modest ROA/ROE of 1.2%/10.6% in FY23.

**FIG 2 – REVISED ESTIMATES**

Particulars	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net interest income (Rs mn)	42,597	50,398	42,195	49,320	1.0	2.2
Pre-provisioning profit	34,204	39,832	33,146	38,338	3.2	3.9
Net Profit (Rs mn)	10,894	15,075	10,622	14,604	2.6	3.2
EPS (Rs)	18	25	18	24	2.6	3.3

Source: Company, BOBCAPS Research

**FIG 3 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key downside risks to our estimates are:

- unsecured businesses exhibit below-expected asset quality, and
- liability franchise fails to pick up meaningfully, leading premium deposit rates to weigh on margins.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Net interest income</b>	<b>25,395</b>	<b>36,296</b>	<b>37,876</b>	<b>42,597</b>	<b>50,398</b>
NII growth (%)	43.8	42.9	4.4	12.5	18.3
Non-interest income	14,424	19,102	20,578	21,692	23,529
Total income	39,818	55,399	58,454	64,289	73,927
Operating expenses	20,420	27,883	27,546	30,085	34,095
Operating profit	19,398	27,516	30,908	34,204	39,832
Operating profit growth (%)	45.7	41.8	12.3	10.7	16.5
Provisions	6,407	19,989	24,017	19,639	19,678
PBT	12,992	7,528	6,891	14,565	20,154
Tax	4,322	2,471	1,813	3,670	5,079
<b>Reported net profit</b>	<b>8,670</b>	<b>5,057</b>	<b>5,078</b>	<b>10,894</b>	<b>15,075</b>
Adjustments	0	0	0	0	0
<b>Adjusted net profit</b>	<b>8,670</b>	<b>5,057</b>	<b>5,078</b>	<b>10,894</b>	<b>15,075</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Equity capital	4,267	5,087	5,980	5,980	5,980
Reserves & surplus	71,206	100,742	120,646	129,661	142,135
Net worth	75,473	105,829	126,626	135,641	148,116
Deposits	583,944	578,122	731,213	840,895	1,009,074
Borrowings	118,321	170,067	112,259	121,240	133,364
Other liabilities & provisions	25,850	35,759	36,409	42,598	49,840
<b>Total liabilities and equities</b>	<b>803,588</b>	<b>889,778</b>	<b>1,006,506</b>	<b>1,140,373</b>	<b>1,340,393</b>
Cash & bank balance	66,021	88,572	134,242	158,406	186,919
Investments	168,404	181,497	232,304	274,119	328,943
Advances	543,082	580,190	586,225	644,848	760,920
Fixed & Other assets	26,081	39,518	53,735	63,001	63,611
<b>Total assets</b>	<b>803,588</b>	<b>889,778</b>	<b>1,006,506</b>	<b>1,140,373</b>	<b>1,340,393</b>
Deposit growth (%)	33.0	(1.0)	26.5	15.0	20.0
Advances growth (%)	34.9	6.8	1.0	10.0	18.0

### Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
EPS	20.5	10.8	9.2	18.2	25.2
Dividend per share	2.5	3.8	0.0	2.7	3.8
Book value per share	176.9	208.0	211.7	226.8	247.7

Source: Company, BOBCAPS Research

### Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
P/E	8.9	16.8	19.8	10.0	7.2
P/BV	1.0	0.9	0.9	0.8	0.7
Dividend yield (%)	1.4	2.1	0.0	1.5	2.1

### DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Net interest income	3.6	4.3	4.0	4.0	4.1
Non-interest income	2.0	2.3	2.2	2.0	1.9
Operating expenses	2.9	3.3	2.9	2.8	2.7
Pre-provisioning profit	2.7	3.2	3.3	3.2	3.2
Provisions	0.9	2.4	2.5	1.8	1.6
PBT	1.8	0.9	0.7	1.4	1.6
Tax	0.6	0.3	0.2	0.3	0.4
ROA	1.2	0.6	0.5	1.0	1.2
Leverage (x)	10.0	9.3	8.2	8.2	8.7
ROE	12.2	5.6	4.4	8.3	10.6

### Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Net interest income	43.8	42.9	4.4	12.5	18.3
Pre-provisioning profit	45.7	41.8	12.3	10.7	16.5
EPS	28.2	(47.2)	(15.1)	98.5	38.4
<b>Profitability &amp; Return ratios (%)</b>					
Net interest margin	3.7	4.5	4.2	4.2	4.3
Fees / Avg. assets	1.6	1.8	1.6	1.5	1.4
Cost-Income	51.3	50.3	47.1	46.8	46.1
ROE	12.2	5.6	4.4	8.3	10.6
ROA	1.2	0.6	0.5	1.0	1.2
<b>Asset quality (%)</b>					
GNPA	1.4	3.6	4.5	3.9	2.7
NNPA	0.7	2.1	1.7	1.4	0.8
Credit cost	1.1	3.5	4.1	3.2	2.7
Provision coverage	49.9	42.3	61.5	64.3	72.2
<b>Ratios (%)</b>					
Credit-Deposit	93.0	100.4	80.2	76.7	75.4
Investment-Deposit	28.8	31.4	31.8	32.6	32.6
CAR	13.5	16.4	17.5	15.8	14.8
Tier-1	12.1	15.3	16.6	15.0	14.1

Source: Company, BOBCAPS Research

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

**BUY** – Expected return >+15%

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

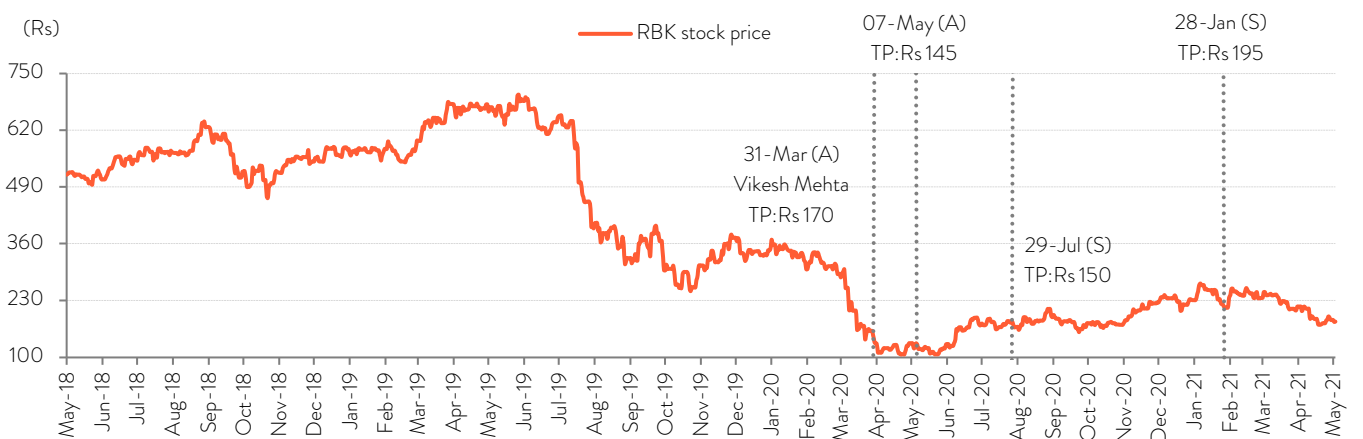
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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



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

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