

RBL Bank

Healthy operating performance; provision mar profitability

Particulars (₹ Cr)	Q3FY20	Q2FY20	% chg (qoq)	Q3FY19	% chg (yoy)
NII	923	869	6	655	41
Pre-prov. profit	732	636	15	498	47
PAT	70	54	29	225	(69)

Source: Company, Angel Research

For Q3FY2020, RBL Bank (RBL) reported PAT of ₹70cr, down 96% yoy primarily owing to elevated provision on new identified stressed asset (₹1,800cr). However, on all other fronts, the bank reported healthy numbers viz. pre-prov profit jumped 47% yoy, NIM up 29bps/6bps yoy/qoq to the highest level at 4.41% and CASA ratio up 220bps yoy to 26.8%.

Provisions & slippages at elevated level: Provisions increased 4x yoy led by higher slippages of ₹1,048cr. The key positive for quarter was that out of ₹1,048cr slippages, ₹710cr slid from identified stressed pool (the total stressed pool in Q2FY20 was ₹1,800cr). Management informed that total ₹1,500cr has been slipped to NPA and 45-50% provision has been taken in last two quarter. Balance ₹300cr would slip in the next quarter. Hence, we expect normalization of credit cost from Q1FY2021 onwards.

Robust growth in advances; NIMs improve: During Q3FY2020, the bank's advances grew by 20% yoy, out of which retail loan book increased 49% yoy to constitute 36.68% of the total advances. The wholesale loans inched up 3% yoy, we expect wholesale growth to remain subdued for the next couple of quarters. During the quarter, NIM increased by 29bps yoy to 4.31%, aided by the higher yield on advances (up 110bps yoy) as against cost of funds (up 20bps yoy); NIMs have continued to expand since last 11 quarters. However, going forward, interest reversal on slippages would keep NIMs under pressure.

Cards portfolio grew to 2.5mn, while credit card book grew at 109% yoy to ₹9,386cr (15.7% of total loans). Management indicated credit cost for cards business stands at 4.6-4.7%. The bank writes off NPLs in its credit card business after 180 days.

Outlook & Valuation: RBL Bank's fresh set of stressed pool would push back ROA of 1.5% to Q2FY2021. However, for the next couple of quarters key monitorable will be no further addition to stress book and BB & Below book. We expect RBL Bank to grow its advances at CAGR of 22% over FY2019-21E. Improvement in CASA, higher share of retail book and in-house priority sector lending will support NIM going forward. At CMP, RBL trades at 1.4x FY21E P/ABV. We maintain our Buy rating with Target Price of ₹410

Key Financials

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	1,221	1,766	2,539	3,371	4,361
% chg	42	27	33	20	26
Net profit	446	635	867	579	1,621
% chg	52.5	42.3	36.6	(33.2)	179.9
NIM (%)	2.9	3.4	3.7	4.0	4.3
EPS (₹)	8.8	12.5	17.1	11.4	31.9
P/E (x)	38	27	20	30	11
P/ABV (x)	4.0	2.6	2.3	1.7	1.5
RoA (%)	1.0	1.1	1.2	0.7	1.50
RoE (%)	12.2	11.5	12.2	6.4	14.5

Source: Company, Valuation done on closing price of 28/10/2020

Please refer to important disclosures at the end of this report

BUY

CMP	₹339
Target Price	₹410

Investment Period	12 Months
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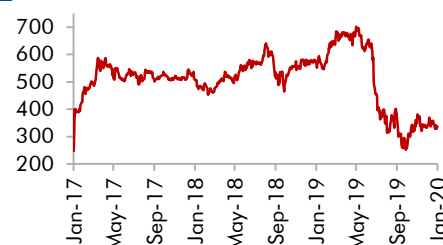
Sector	Banking
Market Cap (₹ cr)	17,091
Beta	2.1
52 Week High / Low	716/231
Avg. Daily Volume	4,44,667
Face Value (₹)	10
BSE Sensex	41,155
Nifty	12,119
Reuters Code	RATB BO
Bloomberg Code	RBK IN

Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	30.2
FII / NRIs / OCBs	24.3
Indian Public / Others	45.5

Abs. (%)	3m	1yr	3yr
Sensex	4.9	15.4	47.6
RBLBANK	29.6	(40.4)	(15.6)

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly Performance

Particulars (₹ cr)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% chg (yoy)	% chg (qoq)
Interest Earned	1,463	1,639	1,834	2,023	2,126	2,157	32	1
on Advances / Bills	1,173	1,330	1,469	1,619	1,720	1,761	32	2
on investments	261	274	297	340	339	355	30	5
on bal with RBI & others	23	24	45	42	56	36	47	(37)
on others	6	10	23	22	11	6	(46)	(47)
Interest Expended	870	984	1,095	1,205	1,257	1,235	25	(2)
Net Interest Income	593	655	739	817	869	923	41	6
Other Income	333	374	409	481	442	487	30	10
Operating income	926	1,029	1,148	1,299	1,310	1,410	37	8
Operating Expenses	477	531	588	680	674	677	28	0
Employee expenses	151	164	168	185	196	188	15	(4)
Other Opex	326	367	420	495	478	489	34	2
Pre Provision Profit	449	498	560	619	636	732	47	15
Provisions & Contingencies	140	161	200	213	533	638	297	20
PBT	309	338	360	406	103	94	(72)	(8)
Provision for Taxes	105	113	113	139	48	24	(79)	(50)
Tax rate	34	33	31	34	47	25	(24)	(46)
PAT	205	225	247	267	54	70	(69)	29
Balance sheet								
Balance sheet	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% chg (yoy)	% chg (qoq)
Advance (₹ cr)	45,873	49,893	54,308	56,837	58,472	59,635	20	2
Deposit (₹ cr)	47,790	52,187	58,394	60,811	62,829	62,907	21	0
Credit-to-Deposit Ratio (%)	96	96	93	93	93	95	(80.6)bp	173.3bp
CA (₹ cr)	5,687	6,315	6,365	5,655	6,534	6,542	4	0
SA (₹ cr)	6,022	6,523	8,234	10,034	10,115	10,317	58	2
CASA deposits (₹ cr)	11,709	12,838	14,599	15,689	16,650	16,859	31	1
CASA %	24.50	24.60	25.00	25.80	27	27	220bp	30bp
CAR (%)	14	14	13	12	12	16	228bp	378bp
Tier 1 CAR (%)	13	13	12	11	11	15	252bp	372bp
Profitability Ratios (%)								
Yield on Adv Reported	10.9	11.2	11.8	12.0	12.1	12.3	110bp	20bp
Cost of funds Reported	6.4	6.6	6.8	6.8	6.8	6.8	20bp	0bp
NIM Reported	4.1	4.1	4.23	4.23	4.35	4.41	29bp	6bp
Cost-to-income ratio	0.52	0.52	0.51	0.52	0.5	0.5	(3.5)bp	(3.4)bp
Asset quality								
Gross NPAs (₹ cr)	645	696	755	789	1,539.0	2,010.5	189	31
Gross NPAs (%)	1.42	1.38	1.38	1.38	2.6	3.3	195bp	73bp
Net NPAs (₹ cr)	339	358	373	372	912.0	1,236.4	245	36
Net NPAs (%)	0.7	0.7	0.69	0.65	1.6	2.1	135bp	51bp
PCR (%)	48	48	50	53	40	38	(998.8)bp	(216.2)bp
PCR Reported (%)	62	63	65	69	58.4	58.1	(520)bp	(30)bp
Slippage ratio (%)	1.2	1.7	1.5	1.6	9.4	7.0	533.8bp	(239)bp
Credit Cost on Adv (AnnI)	1.2	1.3	1.5	1.5	3.6	4.3	299.3bp	63.3bp

Source: Company, Angel Research

Exhibit 2: Advance grew 20% led by Retail book

Particular (₹ cr)	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	% chg (yoy)	% chg (qoq)
C&IB	18,826	19,935	21,354	21,980	22,143	21,260	7	(4)
CB	8,303	8,541	8,875	8,733	8,328	8,031	(6)	(4)
Wholesale	27,129	28,476	30,229	30,713	30,471	29,291	3	(4)
Retail Asset	12,407	14,644	16,467	18,391	20,138	21,875	49	9
LAP	4,532	5,659	6,453	6,945	7,294	7,459	32	2
Credit Card	3,613	4,496	5,283	6,653	8,003	9,386	109	17
Retail Agri	1,541	1,562	1,571	1,523	1,470	1,510	(3)	3
BIL	1,257	1,358	1,459	1,504	1,541	1,569	16	2
Others	1,464	1,569	1,701	1,766	1,830	1,951	24	7
DB&FI	6,337	6,773	7,611	7,733	7,868	8,470	25	8
-Micro banking	3,917	4,220	5,028	4,969	5,151	5,520	31	7
-IFI	1,669	1,685	1,579	1,696	1,575	1,734	3	10
-MSME	751	868	1,004	1,068	1,142	1,216	40	6
Non-Wholesale	18,744	21,417	24,078	26,124	28,006	30,345	42	8
Total	45,873	49,893	54,307	56,837	58,477	59,636	20	2

Source: Company, Angel Research

Exhibit 3: DuPont Analysis

DuPont Analysis (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.68	8.62	8.28	8.45	8.16	8.86	9.11	9.15
Interest Expenses	6.48	6.17	5.81	5.67	4.96	5.29	5.29	5.11
NII	2.19	2.46	2.47	2.78	3.20	3.57	3.81	4.03
- Prov	0.30	0.27	0.35	0.54	0.66	0.90	2.03	1.13
Adj NII	1.90	2.19	2.13	2.24	2.54	2.67	1.79	2.90
Other Income	1.68	1.78	1.48	1.72	1.93	2.03	2.13	2.17
Total Income	3.57	3.97	3.61	3.95	4.47	4.70	3.91	5.07
Opex	2.72	2.65	2.31	2.40	2.72	2.87	3.04	3.07
PBT	0.85	1.32	1.29	1.55	1.75	1.83	0.88	2.00
TAX	0.26	0.41	0.41	0.54	0.60	0.61	0.22	0.50
RoA	0.59	0.91	0.88	1.02	1.15	1.22	0.66	1.50
Leverage	8.61	10.68	12.71	12.00	10.03	9.99	9.82	9.69
RoE	5.12	9.77	11.21	12.18	11.52	12.18	6.43	14.53

Source: Company, Angel Research

Income Statement

Particular (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
Net Interest Income	1,221	1,766	2,539	3,371	4,361
- YoY Growth (%)	49	45	44	33	29
Other Income	755	1,068	1,442	1,882	2,346
- YoY Growth (%)	54	41	35	30	25
Operating Income	1,977	2,834	3,982	5,253	6,707
- YoY Growth (%)	51	43	40	32	28
Operating Expenses	1,056	1,504	2,042	2,687	3,318
- YoY Growth (%)	38	42	36	32	24
Pre - Provision Profit	920	1,331	1,940	2,566	3,389
- YoY Growth (%)	70	45	46	32	32
Prov. & Cont.	239	365	641	1,792	1,222
- YoY Growth (%)	109	53	76	180	(32)
Profit Before Tax	681	966	1,299	774	2,167
- YoY Growth (%)	59	42	34	(40)	180
Prov. for Taxation	235	331	432	195	545
- as a % of PBT	35	34	33	25	25
PAT	446	635	867	579	1,621
- YoY Growth (%)	53	42	37	(33)	180

Balance Sheet

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
Equity	375	420	427	508	508
Reserve & Surplus	3,960	6,264	7,121	9,962	11,340
Net worth	4,336	6,684	7,547	10,470	11,848
Deposits	34,588	43,902	58,394	70,339	88,459
- Growth (%)	42	27	33	20	26
Borrowings	7,980	9,261	11,832	13,015	15,618
Other Liab. & Prov.	1,785	2,003	2,585	2,672	3,856
Total Liabilities	48,689	61,851	80,359	96,497	1,19,781
Cash Balances	2,948	2,589	8,440	4,506	5,558
Bank Balances	1,246	1,695	1,763	2,575	3,176
Investments	13,482	15,448	16,840	21,241	26,202
Advances	29,449	40,268	54,308	65,170	81,462
- Growth (%)	39	37	35	20	25
Fixed Assets	259	334	402	579	715
Other Assets	1,306	1,517	2,206	2,426	2,669
Total Assets	48,689	61,851	83,959	96,497	1,19,781
- Growth (%)	24	27	36	15	24

Key Ratio

Y/E March (₹ Cr)	FY17	FY18	FY19E	FY20E	FY21E
Profitability ratios (%)					
NIMs	2.9	3.4	3.7	4.0	4.3
Cost to Income Ratio	53.4	53.0	51.3	51.1	49.5
RoA	1.0	1.1	1.2	0.66	1.50
RoE	12.2	11.5	12.2	6.4	14.5
B/S ratios (%)					
CASA Ratio	0.22	0.24	0.25	0.27	0.27
Credit/Deposit Ratio	0.9	0.9	0.9	0.9	0.9
Asset Quality (%)					
Gross NPAs	1.21	1.41	1.33	3.30	3.00
Gross NPAs (₹)	356.8	566.7	722.3	2,151	2,443.9
Net NPAs	0.64	0.78	0.73	2.00	1.40
Net NPAs (₹)	189.9	314.0	396.5	1,303.4	1,140.5
Credit Cost on Advance	0.81	0.91	1.18	2.75	1.50
Provision Coverage	47%	45%	45%	39%	53%
Per Share Data (₹)					
EPS	8.8	12.5	17.1	11.4	31.9
BV	85.3	131.6	148.6	206.1	233.2
ABVPS (70% cover.)	83.7	128.7	145.0	193.1	225.2
DPS	1.8	2.3	2.6	1.7	4.8
Valuation Ratios					
PER (x)	38.5	27.0	19.8	29.6	10.6
P/BV	4.0	2.6	2.3	1.6	1.4
P/ABVPS (x)	4.0	2.6	2.3	1.7	1.5
Dividend Yield	0.5	0.7	0.8	0.5	1.4

Valuation done on closing price of 28/01/2020

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1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Based on Expected Returns: over 12 months investment period)	Buy (> 15%)	Accumulate (5% to 15%)	Neutral (-5 to 5%)
		Reduce (-5% to -15%)	Sell (< -15%)
		Hold (Fresh purchase not recommended)	