

RBL Bank Limited

Strong Management at the helm of affairs

RBL Bank Ltd (RBL) has emerged as one of the fastest growing private sector banks in the last six years post its new Management team having taken charge.

Focused approach to support growth momentum: RBL has been largely focusing on catering to the funding and working capital needs of large as well as mid-sized corporates. It has also bought the credit card & mortgage business of The Royal Bank of Scotland (RBS) and has been expanding the same along with other new retail products which now account for 17% of its total advances. Further, 15% of the bank's book, ie ~₹3,133cr, is accounted by the high yielding microfinance segment, which is likely to help in yielding a better ROE, going ahead.

Strong Management team with vast experience: In 2010, the new Management team took over charge led by MD & CEO Mr Vishwavir Ahuja, who previously served as MD & Country CEO of Bank of America for the Indian subcontinent. Under his vision and leadership, the bank has transformed itself from being a traditional bank to a new age bank competing with other private sector banks.

Growth without a compromise in asset quality: While the new Management has been aggressive in expanding the loan book, it also put in place an efficient risk management system which has led to GNPA's being contained below 1% in the last four years. For FY2016, GNPA's at 0.98% and NNPAs at 0.59% are very much comparable to that of new age private sector banks.

CASA ratio still low, but there lies scope for improvement: The bank has a low CASA base of 18.6%, but it's been growing at a CAGR of ~45%. We believe as business matures, RBL will be able to scale up its CASA. Our calculated NIM for the bank at 2.54% also seems to have a lot of scope for improvement as the cost of funds eases going ahead.

Enough scope for a decline in cost/income ratio: RBL has invested heavily in technology, branch expansions and manpower; hence the cost to income ratio has been high at 58% for FY16. With growth in business, we expect the bank to avail to economies of scale, which in turn would add to the bottom-line. ROA of 0.9% and ROE of 11.4% seems suboptimal and leaves scope for improvement.

Outlook Valuation: At the upper end of the price band, ie ₹225, the stock is offered at 2.4x its pre-IPO BV, while on post IPO BV it's offered at 2.1x. We believe the issue is attractively priced taking into account the valuations at which other mid-sized private sector banks are currently trading. To add to it, given the growth prospects of the bank, **we recommend a SUBSCRIBE to the issue.**

Key Financials

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016
NII	187	258	342	556	819
% chg	96.3	37.9	32.6	62.9	47.2
Net profit	66	92	93	207	296
% chg	433	41	0	124	43
NIM (%)	3.66	2.62	2.26	2.53	2.54
Book Value (₹)	53.2	63.5	69.3	76.0	92.1
P/BV (x)	-	-	-	-	2.4
RoA (%)	1.3	0.9	0.6	0.9	0.9
RoE (%)	5.9	6.7	5.3	10.1	11.4

Source: Company, Angel Research; Note: Valuation ratios based on pre-issue outstanding shares and at upper end of the price band

SUBSCRIBE

Issue Open: August 19, 2016
 Issue Close: August 23, 2016

Issue Details

Face Value: ₹10

Present Eq. Paid up Capital: ₹324.7cr

Fresh Issue*: 3.7 cr Shares amounting to ₹832.5crs

Offer for sale: 1.69 cr Shares amounting to ₹382crs

Post Eq. Paid up Capital: ₹361.7crs

Market Lot: 65 Shares

Fresh Issue (amount): ₹832.5cr

Price Band: ₹224-225

Post-issue implied mkt. cap ₹8139cr*

Note: *Upper price band

Book Building

QIBs	50%
Non-Institutional	15%
Retail	35%

Siddharth Purohit

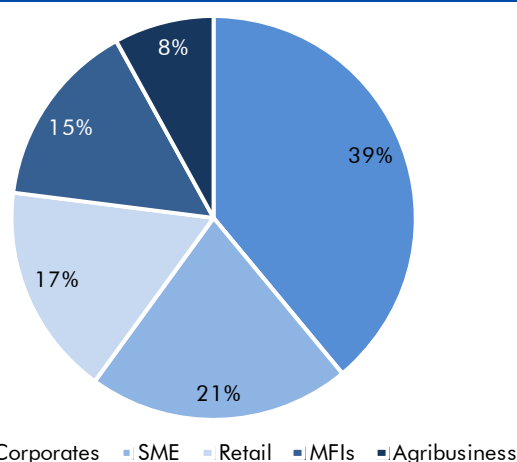
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Company background

RBL has a long history in India, with the bank being in operations since 1943 when it was incorporated as a small, regional bank in Maharashtra with two branches, ie in Kolhapur and Sangli. Though the bank has been in existence for the last 73 years, it has transformed itself from a traditional bank to a new age bank only in the last six years. While its presence is majorly restricted to the western part of India with ~50% of its branches being in Maharashtra (including Mumbai), it has gradually started diversifying its presence across other geographies. As of 31st March, 2016 the bank had a network of 197 branches and 362 ATMs and had a customer base of 1.9mn.

Exhibit 1: Latest Portfolio Mix (%)



Source: Company, Angel Research

Key Management Personnel

Mr Vishwvir Ahuja-Managing Director & CEO- Mr Ahuja is a well recognized personality in the Indian banking arena. Before taking over the reins of RBL, he was previously the MD & Country Executive Officer of Bank of America for the Indian subcontinent operations. He along with other management personnel has been the prime driving force that has spurred the aggressive growth of RBL.

Mr Rajeev Ahuja –Head of Strategy, Retail, Transaction Banking and Financial Inclusion- Mr Ahuja was previously associated with Citibank India, Bank of America, India, and Bankers Trust Company.

Mr Naresh Karia -Chief Financial Officer- Mr Karia has previously served as the Country Controller of Citibank N.A, India.

Issue details

The company is raising ₹832.5cr through fresh issue of equity shares in the price band of ₹224-225. The fresh issue will constitute 10% of the post-issue paid-up equity share capital of the company assuming the issue is subscribed at the upper end of the price band.

Along with the fresh issue of equity shares, there is also an Offer for Sale (OFS) of 1.69cr equity shares from the existing shareholders.

The top 10 shareholders of the bank are as follows:

Exhibit 2: Top10 Shareholders

Name of the Shareholder	Shareholding %
CDC Group PLC	4.8
Asian Development Bank	4.3
International Finance Corporation	3.8
Norwest Venture Partners X FII-Mauritius	3.8
Fearing Capital India Evolving Fund	3.6
Galileo Investments Ltd	3.6
Cartica Capital 2 Ltd	3.4
GPE	3.1
UTI Investment Advisory Services Ltd A/C	3.1
Asia Capital Financial Opportunities Pte	3.0
Total	36.5

Source: Company, Angel Research

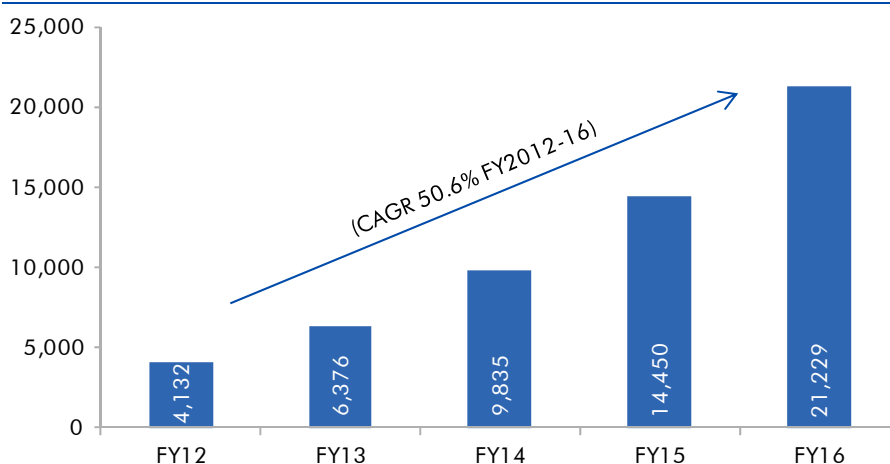
Objects of the offer

- To augment the bank's tier-I capital base to meet its future capital requirements due to expected growth of the bank's assets.
- The listing will also enhance the visibility and brand name of the bank among existing and potential customers of the bank.

Investment rationale

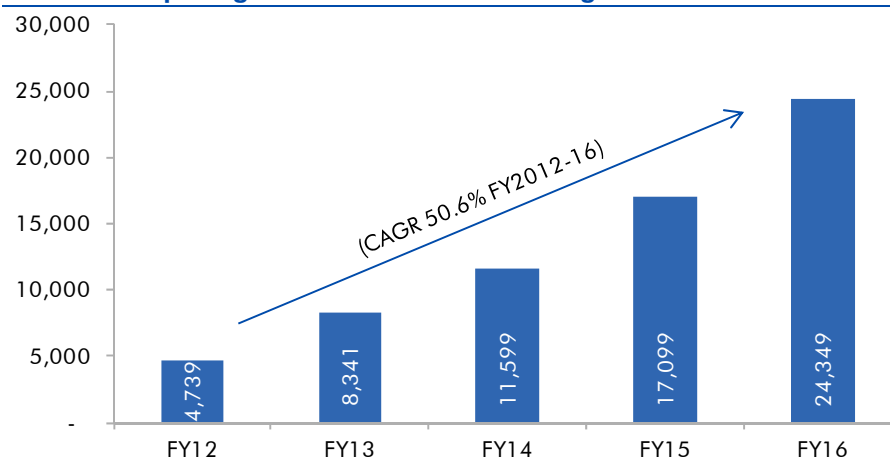
Growth momentum likely to continue on focused approach of the new Management: RBL has been largely focusing on catering to the funding and working capital needs of large as well as mid-sized corporates. It has also bought the credit card business of The Royal Bank of Scotland (RBS) and has been expanding the same along with other new retail products which now account for 17% of its total advances. Further, 15% of the bank's book, ie ~₹3,133cr, is accounted by the high yielding microfinance segment, which is likely to help in yielding a better ROE, going ahead.

Exhibit 3: Strong growth in loan book



Source: Company, Angel Research

Exhibit 4: Deposit growth has also been strong

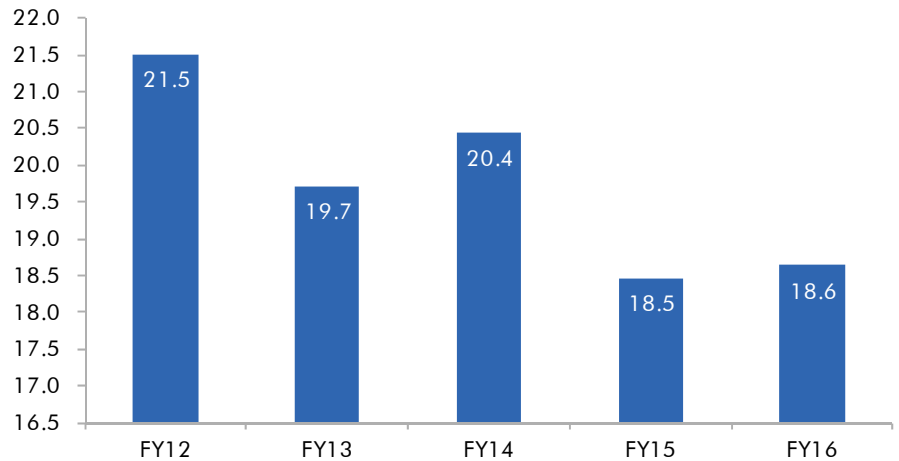


Source: Company, Angel Research

Strong Management team with vast experience: In 2010, the new Management team took over charge led by MD & CEO Mr Vishwavir Ahuja, who previously served as MD & Country CEO of Bank of America for the Indian subcontinent. Under his vision and leadership, the bank adopted a new approach and transformed itself from being a traditional bank to a new age bank competing with other private sector banks.

CASA ratio still low, but there lies scope for improvement: The bank has a low CASA base of ~18%, but it's been growing at a CAGR of ~45%. It has been observed in the banking industry, particularly with many private sector banks, that the CASA ratio tends to improve as the business matures. We expect RBL to be able to scale up its CASA going forward, albeit at a slower pace than other private banks.

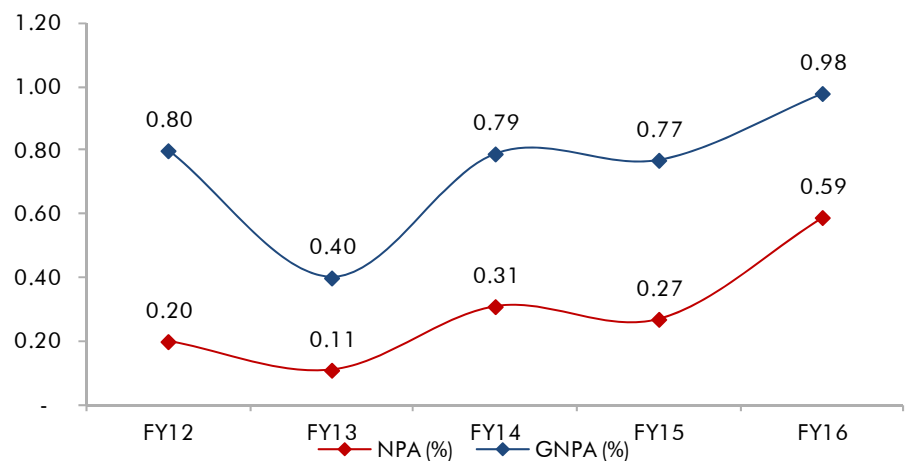
Exhibit 5: CASA ratio should pick up



Source: Company, Angel Research

Growth without a compromise in asset quality: While the new Management has been aggressive in expanding the loan book, it also put in place an efficient risk management system which has led to GNPA's being contained below 1% in the last four years. For FY16 end the GNPA's stood at 0.98% while NNPA's was at 0.59%. As the bank has been expanding the loan book by meeting the working capital needs of the corporate, along with retail, we don't expect material deterioration in the asset quality. The bank has so far abstained from lending to the long gestation infra projects and hence, if the strategy is maintained we feel the bank will not face any asset quality issue.

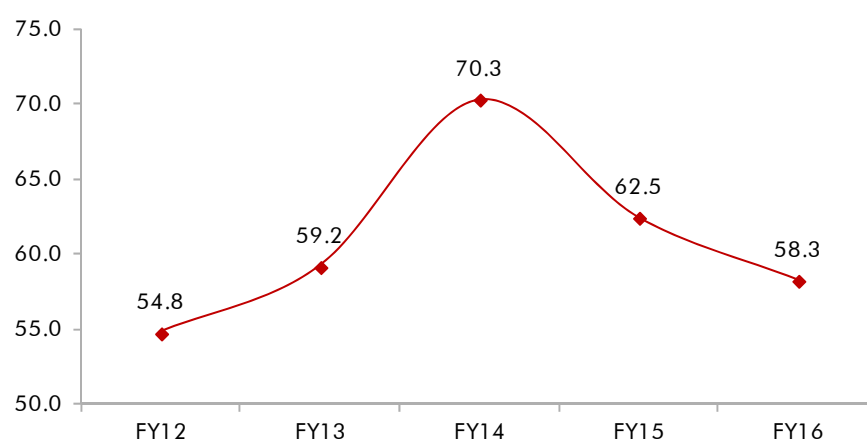
Exhibit 6: GNPA's and NNPA's trend



Source: Company, Angel Research

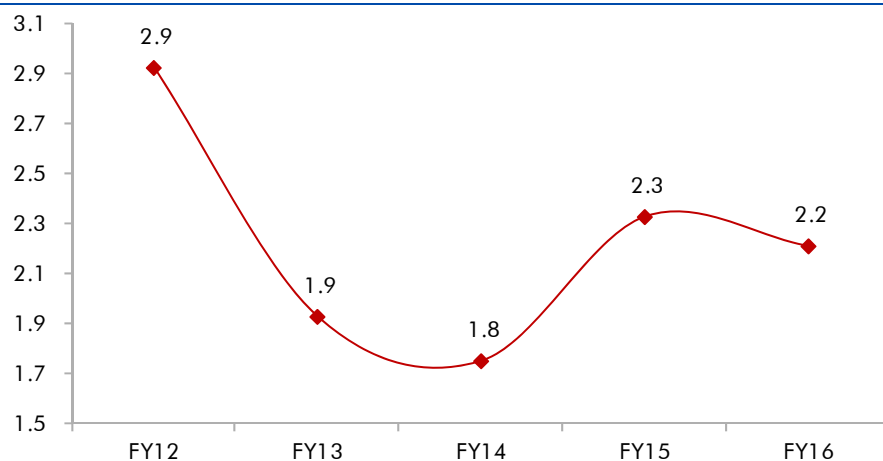
Enough scope for a decline in cost/income ratio: The new Management has inducted fresh talent from other private sector banks and has also invested heavily in technology, along with branch expansions. The number of branches has been doubled from 100 to 201 in the past five years, while the number of employees has also been increased by 3x over the same period. This has resulted in the cost to income ratio rising to 70% by FY2014 from 55% in FY2012; for FY2016, it stood at 58%. With growth in business, we expect the bank to avail to economies of scale and this should unearth enough scope for improvement in the cost structure, which in turn would add to the bottom-line.

Exhibit 7: Cost/Income Ratio likely to come down:



Source: Company, Angel Research

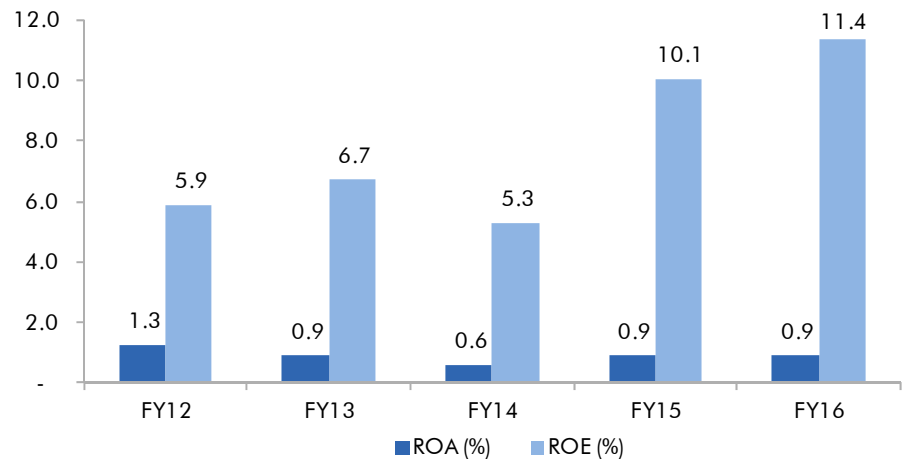
Exhibit 8: Cost to Asset Ratio



Source: Company, Angel Research

Scope for improvement in ROE & ROA profile: With the advent of the new Management, the bank has experienced aggressive growth in its balance sheet as well as earnings. However, large scale investments in branches and manpower have dampened the ROA and ROE. ROA has remained below 1% for the last four years while ROE has also lagged business and earnings growth due to front loading of investments.

Exhibit 9: ROE & ROA

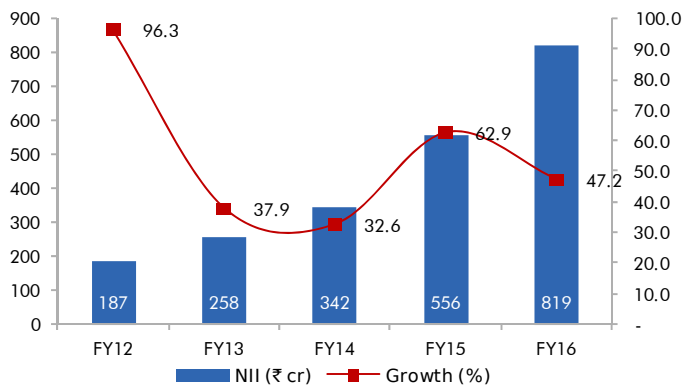


Source: Company, Angel Research

Potential for improvement in NIM

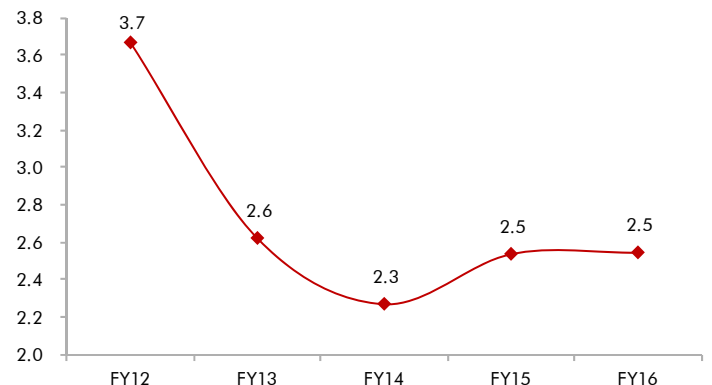
The bank has reported a strong 44.7% CAGR in its NII over FY2012-16. The yield on advances for the bank at 10.95% is relatively better compared to other small and mid-sized private banks, partly due to its aggressive expansion in the retail and microfinance segments. However, the bank’s low CASA base has been one of the reasons for the higher cost of deposits and hence its NIM has been lower than its peers. Nevertheless, the intention and the ability of the bank to gradually bring down the overall funding cost comforts us, which we feel should start adding to the NIM over the next few quarters.

Exhibit 10: NII growth backed by diversified loan book



Source: Company, Angel Research

Exhibit 11: NIM should improve going ahead

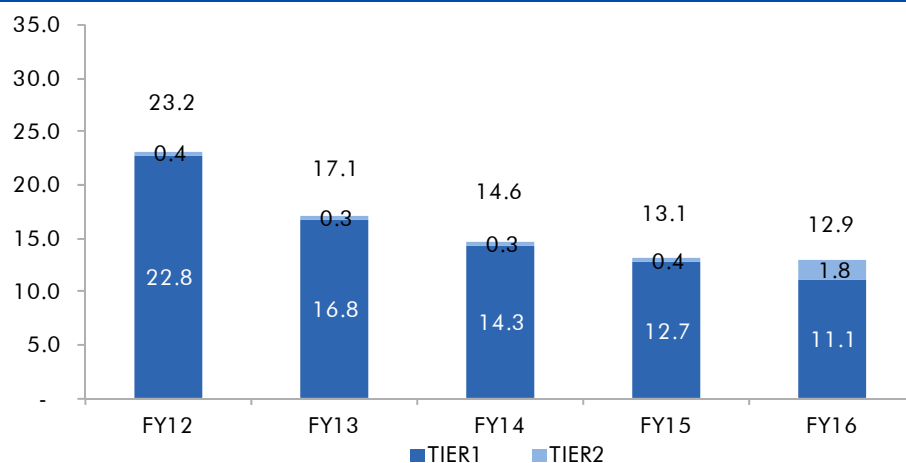


Source: Company, Angel Research

IPO will enable improved Capital Adequacy

The bank's Capital Adequacy has come down from 17.1% in FY2013 to 12.9% in FY2016, with the new Management aggressively growing the balance sheet. To maintain a similar growth rate on a higher base, the bank would need higher capital. We believe, the current fund raising via the IPO should meet the bank's capital requirement in the near term.

Exhibit 12: Capital Adequacy (%)

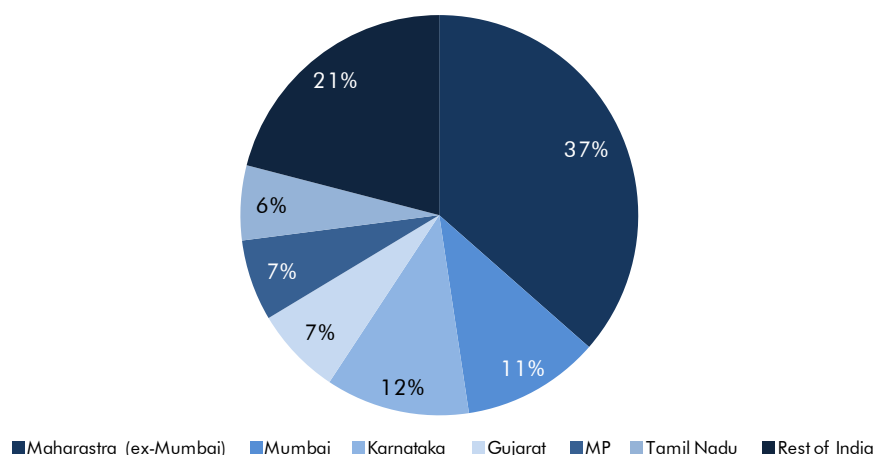


Source: Company, Angel Research

Aggressive branch expansion in last six years

During the last five years, the new Management has nearly doubled its branch network from 100 to 197. However, nearly half of the bank's total branches are still located in Maharashtra alone. The bank is gradually increasing its footprint in other states, but we feel it would be prudent to focus immediate expansion in the home state, ie Maharashtra and in neighboring states like Karnataka and Gujarat.

Exhibit 13: Geographical Mix of Branches (%)



Source: Company, Angel Research

Exhibit 14: Branches State Wise

Location	Number Of Branches
Maharashtra (ex-Mumbai)	72
Mumbai	22
Karnataka	23
Gujarat	14
MP	13
Tamil Nadu	12
New Delhi	8
Goa	8
Rest of India	25

Source: MFIN

Valuation

Outlook & Valuation: At the upper end of the price band, ie ₹225, the stock is offered at 2.4x its pre-IPO BV of ₹92, while on post IPO BV of ₹106 it's offered at 2.1x. We believe the issue is attractively priced taking into account the valuations at which other mid-sized private sector banks are currently trading. To add to it, given the growth prospects of the bank, **we recommend a SUBSCRIBE to the issue.**

Comparative tables

Within the listed space, we believe RBL can be compared to old generation private sector banks as well as the new generation small and mid-sized private banks considering the aggressive growth path that it has embarked upon in the past few years. We believe RBL will be able to attract valuations in between the old generation and new generation small private banks.

Exhibit 15: Comparative Performance Balance sheet

(₹ Cr)	Loan	Deposits	C/ D Ratio	Retail Loans%	CASA%
RBL	21,229	24,349	87.2	17.0	19.0
KVB	39,471	50,079	78.8	15.0	23.3
Federal Bank	58,090	79,172	73.4	29.8	32.5
IndusInd	88,419	93,000	95.1	41.0	35.2
Yes bank	98,210	111,720	87.9	10.8	28.1
Kotak bank	118,665	138,643	85.6	44.3	38.0

Source: Company, Angel Research

Exhibit 16: Comparative – Asset Quality & Capital Adequacy

	GNPAs%	NNPAs%	PCR%	CAR%	Tier 1%
RBL	0.98	0.59	55.9	12.9	11.1
KVB	1.30	0.55	82.5	12.2	11.3
Federal Bank	2.84	1.65	72.0	13.9	13.4
IndusInd	0.90	0.40	58.6	15.5	14.9
Yes bank	0.76	0.29	62.0	16.5	10.7
Kotak bank	2.40	1.10	63.7	16.3	15.3

Source: Company, Angel Research

Exhibit 17: Comparative – Valuations

	P/Adj BV	ROE%	ROA%	NIM%	Div Yield%
RBL Bank	2.6	11.4	0.9	2.5	0.4
Karur Vysya Bank	1.4	12.4	1.0	3.4	2.9
Federal Bank	1.6	6.0	0.6	3.1	3.4
IndusInd Bank	4.2	16.8	1.9	3.9	0.3
Yes Bank	4.1	19.9	1.7	3.4	0.7
Kotak Mahindra Bank	6.6	8.7	1.2	4.3	0.1

Source: Company, Angel Research

Risks

The stupendous growth of the bank in the recent past has been achieved on the back of the new Management team led by Mr Vishavir Ahuja. Following the strategy laid out by the new Management is crucial for the bank to stay perched on the growth path. An exit of any key management personnel can hamper the bank's future growth. It needs a mention that the key Management executives have been incentivized with ESOPs and hence the risk of them exiting is low, at least in the near term.

Income statement

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016
NII	187	258	342	556	819
- YoY Growth (%)	96.3	37.9	32.6	62.9	47.2
Other Income	67	126	261	403	491
- YoY Growth (%)	261.3	88.3	106.4	54.6	21.6
Operating Income	254	384	603	960	1310
- YoY Growth (%)	123.3	51.2	56.9	59.3	36.5
Operating Expenses	139	227	424	600	763
- YoY Growth (%)	47.2	63.4	86.5	41.5	27.3
Pre - Provision Profit	115	157	179	360	546
- YoY Growth (%)	496.5	36.5	14.0	101.5	51.7
Prov. & Cont.	19	23	46	60	114
- YoY Growth (%)	6120.0	21.2	104.2	30.3	90.1
Profit Before Tax	96	134	133	300	432
- YoY Growth (%)	407.5	39.4	-1.2	126.3	44.0
Prov. for Taxation	30	42	40	93	136
- as a % of PBT	359.1	36.7	-4.2	132.8	46.1
PAT	66	92	93	207	296
- YoY Growth (%)	433	41	0	124	43

Balance sheet

Y/E March (₹ cr)	FY2012	FY2013	FY2014	FY2015	FY2016
Share Capital	215	253	282	293	325
Reserve & Surplus	928	1,354	1,613	1,937	2,665
Net Worth	1,143	1,607	1,895	2,230	2,989
Deposits	4,739	8,341	11,599	17,099	24,349
- Growth (%)	132.1	76.0	39.1	47.4	42.4
Borrowings	1,199	2,737	3,896	6,963	10,536
Other Liab.& Prov.	124	279	689	812	1,287
Total Liabilities	7,205	12,963	18,198	27,105	39,161
Cash and Bal with RBI	263	291	981	1,456	1,340
Bal With Banks	323	398	212	715	1,110
Investments	2,334	5,571	6,518	9,792	14,436
Advances	4,132	6,376	9,835	14,450	21,229
- Growth (%)	116.9	54.3	54.2	46.9	46.9
Fixed Assets	59	94	134	164	177
Other Assets	94	233	518	528	869
Total Assets	7,205	12,963	18,198	27,105	39,161

Ratio analysis

Y/E March	FY2012	FY2013	FY2014	FY2015	FY2016
Profitability ratios (%)					
NIMs	3.7	2.6	2.3	2.5	2.5
RoA	1.3	0.9	0.6	0.9	0.9
RoE	5.9	6.7	5.3	10.0	11.4
Asset Quality (%)					
Gross NPAs	0.8	0.4	0.8	0.8	1.0
Net NPAs	0.2	0.1	0.3	0.3	0.6
Per Share Data (₹)					
EPS	3.1	3.7	3.3	7.1	9.1
BV	53.2	63.5	69.3	76.0	92.1
Adj BVPS	52.8	63.3	66.1	74.7	88.2
Valuation Ratios					
PER (x)	-	-	-	-	24.6
P/BVPS (x)					2.4
P/ABVPS (x)	-	-	-	-	2.6
Dividend Yield (%)	-	-	-	-	0.4
DuPont Analysis					
Net Interest Income	3.6	2.6	2.2	2.5	2.5
Non Interest Income	1.3	1.3	1.7	1.8	1.5
Total Revenues	4.9	3.8	3.9	4.2	4.0
Operating Cost	2.7	2.3	2.7	2.6	2.3
PPP	2.2	1.6	1.1	1.6	1.6
Total Provisions	0.4	0.2	0.3	0.3	0.3
PreTax Profit	1.8	1.3	0.9	1.3	1.3
Tax	0.6	0.4	0.3	0.4	0.4
ROA	1.3	0.9	0.6	0.9	0.9
Leverage	4.7	7.3	8.9	11.0	12.7
RoE (%)	5.9	6.7	5.3	10.0	11.4

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