

## RBL Bank

Healthy operating performance; higher NPA recognition and provision mar profitability

Particulars (₹ cr)	Q2FY20	Q1FY20	% chg (qoq)	Q2FY19	% chg (yoy)
NII	869	817	6	593	46
Pre-prov. profit	636	619	3	449	42
<b>PAT</b>	<b>54</b>	<b>267</b>	<b>(80)</b>	<b>205</b>	<b>(73)</b>

For Q2FY2020, RBL Bank (RBL) reported PAT of ₹54cr, down 80%/73% qoq/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 42% yoy, NIM up 42bps/12bps yopy/qoq to highest level at 4.35% and CASA ratio up 200bps yoy to 27%.

**Asset quality declines:** RBL has reported an increase in the identified pool of stressed assets to the extent of ₹1,800cr, which was higher vs. guided figure of ₹1,000cr at the end of Q1FY2020. This led to the addition of ₹1,377cr to GNPA's during the quarter, which now stands at ₹1,539cr vs. ₹789cr in Q1FY2020. Gross NPAs as a % of loan book increased to 2.60% from 1.38% in Q1FY20. Net NPA was up from ₹372cr (0.65%) to ₹915cr (1.56%).

**In the conference call,** the management guided for elevated provisioning in Q3FY2020, which will normalize by Q4FY2020 as the bulk of the provisioning towards the stressed assets will be done by Q3. We believe that the bank has accounted for all stressed portfolios, which is evident from the minuscule number in SMA1 (0.45%) and SMA2 (0.39%). Bank has also provided details on exposure to real estate, construction, NBFC, and Power sectors, which are all standard and gives us further confidence in the remaining wholesale book.

We believe that RBL is earning enough PPOP for taking PCR to 50% on the stressed book by the Q3 and we expect provisioning to normalize by Q4FY2020.

**Robust growth in advances; NIMs improve:** During Q2FY2020, the bank's advances grew by 27% yoy, out of which retail loan book increased 62% yoy to constitute 34% of the total advances. The wholesale loans inched up 12% yoy. During the quarter, NIM increased by 27bps yoy to 4.35%, aided by higher yield on advances (up 120bps yoy) as against cost of funds (up 40bps yoy); NIMs have continued to expand since last 10 quarters. However, going forward interest reversal on slippages would keep NIMs under pressure.

**Outlook & Valuation:** RBL Bank's fresh set of stressed pool would push back ROA of 1.5% to Q2FY2021. We expect RBL Bank to grow its advances at CAGR of 27% 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 (Standalone)

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
NII	1,221	1,766	2,539	3,240	4,109
% chg	42	27	33	32	32
<b>Net profit</b>	<b>446</b>	<b>635</b>	<b>867</b>	<b>674</b>	<b>1,550</b>
% chg	52.5	42.3	36.6	(22.3)	130.1
NIM (%)	2.9	3.4	3.7	3.7	3.7
<b>EPS (₹)</b>	<b>10.4</b>	<b>14.8</b>	<b>20.3</b>	<b>15.8</b>	<b>36.2</b>
P/E (x)	28	19	14	18	8
P/ABV (x)	2.9	1.9	1.7	1.6	1.4
RoA (%)	1.0	1.1	1.2	0.7	1.32
RoE (%)	12.2	11.5	12.2	8.6	17.7

Source: Company, Angel Research, Valuation done on closing price of 30/10/19

## BUY

CMP	₹289
Target Price	₹410

Investment Period	12 Months
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### Stock Info

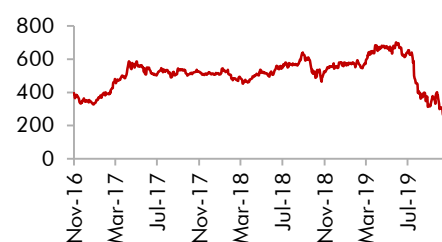
Sector	Banking
Market Cap (₹ cr)	12,429
Beta	1.8
52 Week High / Low	716 / 231
Avg. Daily Volume	16,23,000
Face Value (₹)	10
BSE Sensex	40,052
Nifty	11,844
Reuters Code	RATB BO
Bloomberg Code	RBK IN

### Shareholding Pattern (%)

Promoters	0.0
MF / Banks / Indian Fls	25.8
FII / NRIs / OCBs	18.6
Indian Public / Others	55.7

Abs. (%)	3m	1yr	3yr
Sensex	7.1	18.2	43.7
RBL Bank	(27.5)	(45.0)	(27.0)

### 3-year price chart



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**Increase in identified stressed asset:** During the quarter, bank has added ₹800cr to already disclosed stress asset (₹1,000cr) in Q1FY2020, which was the sentiment spoiler for investor. In Q2FY2020 gross slippages were much higher at ₹1,377cr vs. normal run rate of ₹200cr. Of which, ₹250cr was technical slippages and ₹800cr from identified stressed asset; for this, the bank has taken provision worth ₹350cr, which is excess of regulatory requirement. Management guided that bank would take aggressive provision in Q3FY2020 also on identified stressed asset to shore up PCR and consequently Q4FY2020 onwards bank's slippage will normalize in the range of ₹250-300cr.

We believe that RBL is earning enough PPOP for taking PCR to 50% on the stressed book by Q3 and we expect provisioning to normalize by Q4FY20.

**Impressive deposit & fee income growth:** Bank continues to report impressive deposit growth of ~31%/3% on yoy/qq basis. CASA deposits also witnessed healthy growth of 42%/6% on yoy/qq basis. Increasing branch network and higher interest rates have helped the bank. Total fee income grew ~33% on yoy basis. Card fees grew ~70%/24% on yoy/qq basis, which now constitutes ~57% of fee income and grew 1000bps qq. Increase in the number of cards and POS terminals have supported jump in card fee growth.

#### **RBL Is developing very strong retail business which has higher yield and ROE**

Over the last few years, RBL Bank has developed a very strong retail franchisee in credit card and development banking (mainly micro banking). In the credit card business, RBL has increased its market share from 2.13% at the end of March 2018 to 4.26% in August 2019. The company is adding about 1 lakh new cards per month since December 2018, which is in-line with some of the larger banks like HDFC Bank. We believe that the company's strategy of focusing on high margin retail business will help increase NIMs and profitability for the bank going forward.

At current levels, RBL is trading at P/B multiple of 1.4x FY2021 ABV, which we believe is very inexpensive given the bank's strong retail franchise. Retail is a high margin high RoE business and listed players with strong retail franchises are trading at significantly higher valuations. We believe that valuations have become very cheap for RBL at current levels, which should prevent any further significant downsides in the stock. We agree with the management's view that the asset quality issues are transient and will normalize by Q4FY2020 given the management's decision to make aggressive provisioning in Q2 and Q3.

**Exhibit 1: Quarterly Performance**

Particulars (₹ cr)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% chg (yoy)	% chg (qoq)
<b>Interest Earned</b>	<b>1,223</b>	<b>1,364</b>	<b>1,463</b>	<b>1,639</b>	<b>1,834</b>	<b>2,023</b>	<b>2,126</b>	<b>45</b>	<b>5</b>
on Advances / Bills	953	1,077	1,173	1,330	1,469	1,619	1,720	47	6
on investments	250	261	261	274	297	340	339	30	(0)
on bal with RBI & others	17	19	23	24	45	42	56	144	33
on others	4	7	6	10	23	22	11	90	(50)
<b>Interest Expended</b>	<b>722</b>	<b>812</b>	<b>870</b>	<b>984</b>	<b>1,095</b>	<b>1,205</b>	<b>1,257</b>	<b>44</b>	<b>4</b>
<b>Net Interest Income</b>	<b>500</b>	<b>553</b>	<b>593</b>	<b>655</b>	<b>739</b>	<b>817</b>	<b>869</b>	<b>46</b>	<b>6</b>
Other Income	312	326	333	374	409	481	442	33	(8)
Operating income	812	879	926	1,029	1,148	1,299	1,310	41	1
Operating Expenses	429	446	477	531	588	680	674	41	(1)
Employee expenses	131	153	151	164	168	185	196	30	6
Other Opex	299	293	326	367	420	495	478	47	(3)
Pre Provision Profit	383	432	449	498	560	619	636	42	3
<b>Provisions &amp; Contingencies</b>	<b>113</b>	<b>140</b>	<b>140</b>	<b>161</b>	<b>200</b>	<b>213</b>	<b>533</b>	<b>282</b>	<b>150</b>
PBT	270	292	309	338	360	406	103	(67)	(75)
Provision for Taxes	92	102	105	113	113	139	48	(54)	(65)
Tax rate	34	35	34	33	31	34	47	39	38
<b>PAT</b>	<b>178</b>	<b>190</b>	<b>205</b>	<b>225</b>	<b>247</b>	<b>267</b>	<b>54</b>	<b>(73)</b>	<b>(80)</b>

**Balance sheet**

<b>Advance (₹ cr)</b>	<b>40,268</b>	<b>42,198</b>	<b>45,873</b>	<b>49,893</b>	<b>54,308</b>	<b>56,837</b>	<b>58,472</b>	<b>27</b>	<b>3</b>
Deposit (₹ cr)	43,902	44,950	47,790	52,187	58,394	60,811	62,829	31	3
Credit-to-Deposit Ratio (%)	92	94	96	96	93	93	93	(292.3)bp	(40)bp
CA (₹ cr)	5,356	5,214	5,687	6,315	6,365	5,655	6,534	15	16
SA (₹ cr)	5,356	5,799	6,022	6,523	8,234	10,034	10,115	68	1
CASA deposits (₹ cr)	10,712	11,013	11,709	12,838	14,599	15,689	16,650	42	6
CASA %	24.40	24.50	24.50	24.60	25.00	25.80	27	199.9bp	70bp
CAR (%)	15	15	14	14	13	12	12	(140)bp	(10)bp
Tier 1 CAR (%)	14	13	13	13	12	11	11	(120)bp	0bp

**Profitability Ratios (%)**

Yield on Adv Reported	10.5	10.8	10.9	11.2	11.8	12.0	12.1	120bp	10bp
Cost of funds Reported	6.2	6.4	6.4	6.6	6.8	6.8	6.8	40bp	0bp
NIM Reported	4.0	4.0	4.1	4.1	4.23	4.23	4.35	27bp	12bp
Cost-to-income ratio	0.53	0.51	0.52	0.52	0.51	0.52	0.5	(0)bp	(0.9)bp
Asset quality									
Gross NPAs (₹ cr)	567	596	645	696	755	789	1,539.0	139	95
Gross NPAs (%)	1.40	1.40	1.42	1.38	1.38	1.38	2.6	118bp	122bp
Net NPAs (₹ cr)	313	316	339	358	373	372	912.0	169	145
Net NPAs (%)	0.8	0.7	0.7	0.7	0.69	0.65	1.6	82bp	91bp
PCR (%)	43	50	48	48	50	53	40	(788.7)bp	(1289.9)bp
PCR Reported (%)	58	60	62	63	65	69	58.4	(310)bp	(1070)bp
Slippage ratio (%)	1.1	1.4	1.2	1.7	1.5	1.6	9.4	818.2bp	783.6bp
Credit Cost on Adv (Annl)	1.1	1.3	1.2	1.3	1.5	1.5	3.6	243bp	214.8bp

Source: Company, Angel Broking Research

### Income Statement

Particular (₹)	FY17	FY18	FY19	FY20E	FY21E
<b>Net Interest Income</b>	<b>1,221</b>	<b>1,766</b>	<b>2,539</b>	<b>3,240</b>	<b>4,109</b>
- YoY Growth (%)	49	45	44	28	27
<b>Other Income</b>	<b>755</b>	<b>1,068</b>	<b>1,442</b>	<b>1,925</b>	<b>2,459</b>
- YoY Growth (%)	54	41	35	33	28
<b>Operating Income</b>	<b>1,977</b>	<b>2,834</b>	<b>3,982</b>	<b>5,164</b>	<b>6,568</b>
- YoY Growth (%)	51	43	40	30	27
<b>Operating Expenses</b>	<b>1,056</b>	<b>1,504</b>	<b>2,042</b>	<b>2,635</b>	<b>3,393</b>
- YoY Growth (%)	38	42	36	29	29
<b>Pre - Provision Profit</b>	<b>920</b>	<b>1,331</b>	<b>1,940</b>	<b>2,530</b>	<b>3,175</b>
- YoY Growth (%)	70	45	46	30	26
<b>Prov. &amp; Cont.</b>	<b>239</b>	<b>365</b>	<b>641</b>	<b>1,629</b>	<b>1,103</b>
- YoY Growth (%)	109	53	76	154	(32)
<b>Profit Before Tax</b>	<b>681</b>	<b>966</b>	<b>1,299</b>	<b>900</b>	<b>2,072</b>
- YoY Growth (%)	59	42	34	(31)	130
<b>Prov. for Taxation</b>	<b>235</b>	<b>331</b>	<b>432</b>	<b>227</b>	<b>521</b>
- as a % of PBT	35	34	33	25	25
<b>PAT</b>	<b>446</b>	<b>635</b>	<b>867</b>	<b>674</b>	<b>1,550</b>
- YoY Growth (%)	53	42	37	(22)	130

### Balance sheet

Y/E March (₹ cr)	FY17	FY18	FY19	FY20E	FY21E
Equity	375	420	427	427	427
Reserve & Surplus	3,960	6,264	7,121	7,693	9,011
<b>Net worth</b>	<b>4,336</b>	<b>6,684</b>	<b>7,547</b>	<b>8,120</b>	<b>9,438</b>
<b>Deposits</b>	<b>34,588</b>	<b>43,902</b>	<b>58,394</b>	<b>77,227</b>	<b>1,02,160</b>
- Growth (%)	42	27	33	32	32
Borrowings	7,980	9,261	11,832	14,198	18,032
Other Liab. & Prov.	1,785	2,003	2,585	2,569	3,356
<b>Total Liabilities</b>	<b>48,689</b>	<b>61,851</b>	<b>80,359</b>	<b>1,02,115</b>	<b>1,32,986</b>
Cash Balances	2,948	2,589	8,440	4,747	6,279
Bank Balances	1,246	1,695	1,763	2,712	3,588
Investments	13,482	15,448	16,840	23,734	31,393
<b>Advances</b>	<b>29,449</b>	<b>40,268</b>	<b>54,308</b>	<b>67,885</b>	<b>88,251</b>
- Growth (%)	39	37	35	25	30
Fixed Assets	259	334	402	610	807
Other Assets	1,306	1,517	2,206	2,426	2,669
<b>Total Assets</b>	<b>48,689</b>	<b>61,851</b>	<b>83,959</b>	<b>1,02,115</b>	<b>1,32,986</b>
- Growth (%)	24	27	36	22	30

**Ratio analysis**

Y/E March (₹ Cr)	FY17	FY18	FY19	FY20E	FY21E
<b>Profitability ratios (%)</b>					
NIMs	2.9	3.4	3.7	3.7	3.7
Cost to Income Ratio	53.4	53.0	51.3	51.0	51.7
RoA	1.0	1.1	1.2	0.74	1.32
RoE	12.2	11.5	12.2	8.6	17.7
<b>B/S ratios (%)</b>					
CASA Ratio	0.22	0.24	0.25	0.26	0.26
Credit/Deposit Ratio	0.9	0.9	0.9	0.9	0.9
<b>Asset Quality (%)</b>					
Gross NPAs	1.21	1.41	1.33	2.60	2.20
Gross NPAs (₹ cr)	356.8	566.7	722.3	1,765	1,941.5
Net NPAs	0.64	0.78	0.73	1.10	1.10
Net NPAs (₹ cr)	189.9	314.0	396.5	746.7	970.8
Credit Cost on Advance	0.81	0.91	1.18	2.40	1.25
Provision Coverage	53%	55%	55%	42%	50%
<b>Per Share Data (₹)</b>					
EPS	10.4	14.8	20.3	15.8	36.2
BV	101.4	156.3	176.5	189.8	220.7
ABVPS (70% cover)	99.4	152.9	172.3	184.8	211.6
DPS	1.8	2.3	3.0	2.4	5.4
<b>Valuation Ratios</b>					
PER (x)	27.7	19.4	14.2	18.3	8.0
P/BV	2.8	1.8	1.6	1.5	1.3
P/ABVPS (x)	2.9	1.9	1.7	1.6	1.4
Dividend Yield	0.6	0.8	1.1	0.8	1.9

Note – Valuation done on closing price of 30/10/2019

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Disclosure of Interest Statement	RBL Bank
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