

RETAIL EQUITY RESEARCH

RBL Bank Ltd.

Banking

BSE CODE: 540065

NSE CODE: RBLBANK

Bloomberg CODE: RBK:IN

SENSEX: 32,515

01st August, 2017

ACCUMULATE

Rating as per Mid Cap

12 months investment period

CMP Rs. 535 TARGET Rs. 591 RETURN 10% 

Undisrupted growth momentum continues...

RBL Bank Ltd. has emerged as one of the fastest growing private sector banks with a network of 215 branches and 374 ATMs.

- Advances witnessed strong growth of 40% YoY mainly driven by 44% YoY growth in retail loan book.
- NII increased at a robust pace of 55% YoY on the back of 69 bps YoY improvement in NIM coupled with strong growth in advances.
- We expect asset quality to remain largely stable (Gross/Net NPA of 1.3%/0.5% by FY19E) over FY17-19E given the strong risk management practices.
- We expect loan book and net profit to grow at a CAGR of 36% and 44%, respectively over FY17-19E led by strong growth across all the business segments coupled with improving operating efficiency.
- We change our rating to Accumulate from Hold on the stock with a revised upward TP of Rs591 (P/ABV of 3.5x for FY19E).

Strong growth in advances supported by retail loan book

RBL Bank's net advances continued to witness strong growth of 40% YoY mainly driven by higher growth (↑44% YoY) in non-wholesale loan book. The non-wholesale loan book growth was mostly driven by Business and Branch Banking (↑63% YoY) division. Wholesale loan book also grew at a strong pace of 37% YoY. Within the wholesale segment, corporate & institutional banking grew by 47% YoY and commercial banking increased by 18% YoY. The management is targeting a loan book breakup of 50:50 between wholesale and non-wholesale book over the next few years as compared to the current break-up of 60:40. Led by robust growth in the retail advances, we expect advances to grow at a CAGR of ~36% over FY17-19E. On liabilities side, the bank reported 37% YoY growth in deposits mainly driven by 64% YoY growth in CASA deposits. As a result, CASA ratio increased by 360 bps YoY to 22.1%. We project deposits to grow at a strong pace of ~35% over FY17-19E led by 38% CAGR in CASA deposits.

Robust operational performance

Net interest income (NII) increased at a robust pace of 55% YoY (in line with our expectation) on account of 69 bps YoY improvement in net interest margin (NIM) to 3.5% coupled with strong growth in advances. Other income grew by 53% YoY on the back of stellar growth in treasury (↑178% YoY) and distribution fees (↑158% YoY). Net profit grew at a slightly slower than expected pace of 45% YoY mainly due to 122% YoY increase in provisions owing to higher slippages from the micro finance institutions (MFI) portfolio. Going forward, we expect net profit to increase at a CAGR of 44% over FY17-19E led by better operating efficiency coupled with stable margin.

Marginal hiccups in asset quality

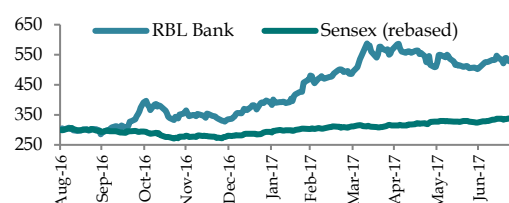
Although RBL Bank reported 62% QoQ decline in slippages, the Gross/Net non-performing assets (NPA) ratios increased by 26/17 bps sequentially to 1.5%/0.8% due to 94% QoQ decline in recoveries and upgradations. Notably, the bulk of the slippage for the quarter was from the MFI portfolio due to the high level of underlying stress in the MFI portfolio post demonetization. However, we expect this trend to reverse in H2FY17 backed by normal monsoon in CY17. Thus, we expect the overall asset quality to remain largely stable over FY17-19E given the strong risk management practices and an improving macro environment.

Outlook & Valuation

RBL Bank continued to maintain high growth momentum without compromising on its asset quality. Going forward, we expect the bank to deliver 44% earnings CAGR over FY17-19E coupled with improving return ratios (RoE of 16.6% and RoA of 1.2% by FY19E). Overall, higher earnings growth, steady asset quality, improving business mix and above industry average loan growth will help the bank to sustain premium valuations over new generation private sector banks. Thus, we upgrade our rating to Accumulate from Hold on the stock with a revised upward target price (TP) of Rs591 (P/ABV of 3.5x for FY19E). Notably, the bank raised capital to the extent of Rs1,680cr on a preferential basis at a price of Rs515 per share in July 2017. Hence, we have incorporated it in our model.

Company Data			
Market Cap (cr)	Rs. 20,143		
Outstanding Shares (cr)	37.7		
Free Float	31%		
Dividend Yield	0.3		
52 week high	Rs. 600		
52 week low	Rs. 274		
6m average volume (cr)	0.2		
Beta	0.8		
Face value	Rs. 10		
Shareholding (%)	Q3FY17	Q4FY17	Q1FY18
Promoters	0.0	0.0	0.0
FII's	6.8	8.0	10.2
MFs/Insti	14.9	13.5	11.1
Public	78.3	78.5	78.7
Others	-	-	-
Total	100.0	100.0	100.0
Price Performance	3 Month	6 Month	1 Year
Absolute Return	-5.3%	39.8%	-
Absolute Sensex	8.7%	17.6%	-
Relative Return*	-14.0%	22.3%	-

*over or under performance to benchmark index



Standalone (Rs. cr)	FY17	FY18E	FY19E
Net Interest Income	1,221	1,698	2,284
Growth (%)	49%	39%	34%
NIM (%)	3.1	3.4	3.5
Pre Pro Profit	920	1,241	1,695
Growth (%)	70%	35%	37%
Net Profit	446	615	857
Growth (%)	53%	38%	39%
EPS	11.8	15.0	20.9
Growth (%)	25%	27%	39%
P/E	42.5	35.6	25.5
P/BV	4.6	3.3	3.0
P/ABV	4.8	3.5	3.2
RoE (%)	12.2	11.3	12.4
RoA (%)	1.0	1.1	1.2

Quarterly Financials (Standalone)

Profit & Loss Account

(Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Interest Income	1,043	864	20.7	986	5.7
Interest on advances	771	583	32.3	718	7.4
Income on Investments	250	260	(3.7)	245	2.1
Others	22	21	2.8	23	(7.8)
Interest Expense	664	619	7.3	634	4.8
Net Interest Income	378	245	54.7	352	7.4
Non-Interest Income	257	168	53.3	237	8.6
Total Net Income	635	412	54.1	589	7.9
Operating Expenses	324	228	42.2	307	5.5
Employee Cost	133	100	32.6	113	17.9
Other Operating Exp.	191	127	49.8	194	(1.6)
Total Income	1,300	1,031	26.0	1,223	6.3
Total Expenditure	988	847	16.7	941	5.0
Pre-Provisioning profit	311	184	68.8	282	10.5
Provisions	94	43	121.7	82	15.1
Profit Before Tax	217	142	52.9	200	8.7
Tax	76	45	70.5	70	9.2
Net Profit	141	97	44.9	130	8.4
EPS - Diluted (Rs)	3.5	3.0	19.2	3.3	7.6

Business Performance (Rs cr)	Q1FY18	Q1FY17	YoY Growth %	Q4FY17	QoQ Growth %
Advances	31,107	22,265	39.7	29,449	5.6
Deposits	35,428	25,803	37.3	34,588	2.4
Business	66,535	48,068	38.4	64,037	3.9
Gross NPA	458	253	81.2	357	28.3
Net NPA	250	148	69.4	190	31.8

Key Ratios (%)	Q1FY18	Q1FY17	YoY bps	Q4FY17	QoQ bps
Net Interest Margin	3.5	2.8	69	3.4	5
Cost of Funds	6.2	7.2	(94)	6.3	(2)
Yield on Advances	10.2	10.7	(53)	10.2	(3)
Yield on Investments	7.5	7.7	(25)	7.4	1
Yield on Funds	9.5	9.8	(26)	9.6	(1)
Cost to Income	51.0	55.2	(426)	52.1	(116)
Credit to Deposit	87.8	86.3	151	85.1	266
CASA	22.1	18.5	360	22.0	10
Capital Adequacy	13.1	12.0	105	13.7	(66)
Tier I Capital	10.8	10.4	47	11.4	(57)
Gross NPA	1.5	1.1	33	1.2	26
Net NPA	0.8	0.7	15	0.6	17
Provision Coverage	58.0	54.7	329	59.6	(159)
Credit Cost	1.2	0.8	45	1.1	10
RoE (Ann.)	12.8	12.8	2	12.2	57
RoA (Ann.)	1.2	1.0	17	1.2	(1)

Change in estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
Net Interest Income	1,685	2,272	1,698	2,284	0.8	0.5
Pre-Provisioning Profit	1,237	1,741	1,241	1,695	0.3	-2.6
Net Profit	640	892	615	857	-3.9	-3.9
EPS (Rs)	17.2	23.9	15.0	20.9	-12.7	-12.4

Source: Company, Geojit Research

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Interest Income	1,953	2,744	3,713	4,707	6,239
Interest Expense	1,397	1,925	2,492	3,009	3,955
Net Interest Income	556	819	1,221	1,698	2,284
% Change	62.9	47.2	49.1	39.1	34.5
Non-Interest Income	403	491	755	941	1,248
Net Income	960	1,310	1,977	2,640	3,532
Operating Expenses	600	767	1,056	1,399	1,837
Total Income	2,356	3,235	4,469	5,649	7,487
Total Expenditure	1,996	2,692	3,548	4,408	5,792
Pre-Provisioning Profit	360	542	920	1,241	1,695
% Change	101.5	50.6	69.7	34.8	36.6
Provisions	60	114	239	309	396
Profit Before Tax	300	428	681	932	1,299
Tax	93	136	235	317	442
<i>Tax Rate (%)</i>	31	32	35	34	34
Net Profit	207	292	446	615	857
% Change	123.6	41.2	52.5	37.9	39.4
No. of Shares (cr)	29	32	38	41	41
EPS (Rs)	7.0	9.4	11.8	15.0	20.9
% Change	93.9	34.7	25.1	27.2	39.4

Balance Sheet

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Capital	293	325	375	410	410
Reserves & Surplus	1,937	2,665	3,960	6,134	6,824
Deposits	17,099	24,349	34,588	45,547	60,130
Borrowings	6,963	10,536	7,980	9,987	13,288
Other Liabilities & Provisions	812	1,287	1,771	2,114	2,482
Total Liabilities	27,105	39,161	48,675	64,191	83,134
Assets					
Cash & Balances	2,170	2,450	4,194	4,818	5,506
Investments	9,792	14,436	13,482	17,308	21,647
Advances	14,450	21,229	29,449	39,630	53,579
Fixed Assets	164	177	259	259	259
Other Assets	528	869	1,292	2,177	2,143
Total Assets	27,105	39,161	48,675	64,191	83,134

Ratios

Y.E March (Rs cr)	FY15	FY16	FY17	FY18E	FY19E
EPS	7.2	9.6	12.6	15.0	20.9
DPS	1.2	1.5	1.8	1.8	3.4
BV	76.0	92.1	115.6	159.7	176.6
ABV	74.7	88.2	110.5	154.4	169.0
Valuation (%)					
P/E	74.0	55.7	42.5	35.6	25.5
P/BV	7.0	5.8	4.6	3.3	3.0
P/ABV	7.2	6.1	4.8	3.5	3.2
Div. Yield	0.2	0.3	0.3	0.3	0.6
Spreads (%)					
Yield on Advances	11.6	10.9	10.4	10.2	10.2
Yield on Investments	6.4	6.2	7.0	6.9	6.9
Yield on Funds	8.9	8.5	8.7	8.6	8.8
Cost of Funds	7.1	6.5	6.4	6.1	6.1
Capital (%)					
CAR	13.1	12.9	13.7	15.3	13.4
Tier I	12.7	11.1	11.4	13.0	11.1
Tier II	0.4	1.8	2.3	2.2	2.2
Asset (%)					
GNPA	0.8	1.0	1.2	1.4	1.4
NNPA	0.3	0.6	0.6	0.5	0.6
PCR	68.3	55.9	54.7	60.0	60.0
Management (%)					
Credit/ Deposit	84.5	87.2	85.1	87.0	89.1
Cost/ Income	62.5	58.6	53.4	53.0	52.0
CASA	18.5	18.6	22.0	23.0	24.2
Earnings (%)					
NIM	2.7	2.7	3.1	3.4	3.5
ROE	9.8	11.2	12.2	11.3	12.4
ROA	0.9	0.9	1.0	1.1	1.2

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
02 May 2017	HOLD	569
01 August 2017	ACCUMULATE	591

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	-	Upside is 10% or more.	Buy	-	Upside is 15% or more.
Hold	-	Upside or downside is less than 10%.	Accumulate*	-	Upside between 10% - 15%.
Reduce	-	Downside is 10% or more.	Hold	-	Absolute returns between 0% - 10%.
			Reduce/Sell	-	Absolute returns less than 0%.
			To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.		

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating.

* For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

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