

RBL Bank

Sector: Banking /Mid-Cap | Earnings Update – 1QFY19

BUY

19 July 2018

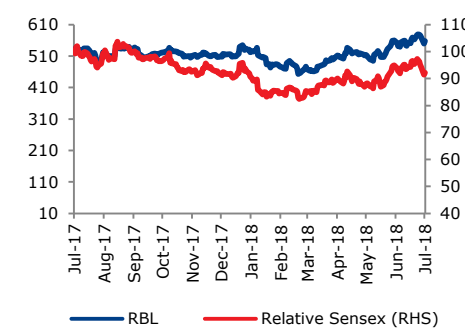
Background: RBL bank (RBL) came into operations in 1943 and was incorporated as a small, regional bank in Maharashtra with two branches in Kohlapur and Sangli. Post the change in the management team in 2010, it has been one among the fastest growing private sector banks and now has 266 interconnected branches and 369 interconnected ATMs spread across 20 Indian states and union territories serving ~4.91mn customers. The bank offers a comprehensive range of banking products and services customized to cater to the needs of large corporations, SMEs, agricultural customers, retail customers and development banking & financial inclusion (low income) customers. Loan book of the bank grew at a CAGR of 55% over FY11 to FY18 and stands at INR 422bn as of 1QFY19 with a deposit base of INR 450bn.

Sensex	36,351
Nifty	10,957
Price	INR 556
Target Price	INR 642
Recommendation	BUY
52 Week High/Low	INR 591/443
Bloomberg / Reuters	RBK IN/ RATB.BO
Equity (shares in mn)	420.9
Mkt. Cap in bn	INR 233.99/ \$ 3.39
Avg. Daily Vol. ('000)	1264.14
Avg. Daily Vol. (mn)	INR 702.74 / \$ 10.19

Shareholding	Jun 17	Mar 18	Jun 18
Promoters (%)	0.00	0.00	0.00
FII (%)	10.20	15.51	14.43
DII (%)	11.10	16.96	20.95
Others (%)	78.70	67.53	64.62
Pledge (% of promoter holding)	0.00	0.00	0.00

Y/E March	2018	2019E	2020E
Net Interest Inc	17.7	22.0	26.5
Other Inc	10.7	12.8	15.3
Pre Prov Profit	13.3	16.4	20.6
PAT	6.4	8.4	10.8
EPS	15.7	20.1	25.7
EPS growth (%)	27.5	27.6	28.2
PE	35.3	27.7	21.6
P /ABV	3.6	3.3	2.9
Div Yield (%)	0.4	0.4	0.4
ROA (%)	1.2	1.3	1.3
ROE (%)	11.0	12.0	13.7
Tier – 1 (%)	13.6	13.1	12.5
CAR (%)	15.3	14.2	13.7

Performance %	1M	3M	12M
RBL	-0.4	8.8	5.0
Sensex	2.5	6.2	13.9



Margin expansion and robust growth in advances; in line with expectations

- RBL's advances grew by 35.6% YoY to INR 422bn in 1QFY19, marginally lower than our estimate of 39% YoY growth. As expected this growth came predominantly from Business Banking segment (62% YoY), DB&FI segment (39.4% YoY) and C&IB segment (31% YoY). The wholesale & retail mix stood marginally altered at 59.2% and 40.8% respectively. Based on their internal ratings, ~94.2% (vs 91.8% till 1QFY18) of the advances is offered to BBB- or higher rated borrowers. The management expects loan book to grow at 30-35% CAGR over FY19-20E.
- Deposits grew by 26.9% YoY (below our expectation of 32%YoY) to INR 450bn supported by increase in CASA base. CASA deposits grew by 40.2%YoY taking CASA ratio to 24.4% from 22.1% in 1QFY18. Going ahead, the company expects a growth of 0.75-1% every year, till FY20 in CASA ratio.
- Net Interest Income grew by 46.1% YoY (above our expectation of 34.1%) and stood at INR 5.5bn led by growth in advances and margin expansion. Reported NIM improved by 50bps YoY (6bps QoQ) to 4.04% primarily led by robust growth in retail advances, coupled with a 20bps YoY rise in yield on advances. Sequentially deposits demonstrated muted growth, which coupled with increase in savings interest rate resulted in a 10bps rise in Cost of funds (QoQ). Nonetheless NIMs improved owing to rising yields.
- Going ahead, the management expects Cof to notch up a tad bit, but NIMs will continue to be at 4% levels, owing to improving overall yields led by both higher yields in wholesale segments and robust growth in high yielding retail segments.
- Asset quality remained intact, with GNPA's flat (QoQ) at 1.4% and down by 6bps YoY. In absolute numbers, GNPA's stood at INR 5.9bn (up 30% YoY). Despite flat GNPA's, provisions spiked up 48.6% YoY (24% QoQ) as the bank tried to achieve its desired levels of PCR (now at 60.4% vs. 58% in 1QFY18).
- Restructured assets rose marginally to 0.1% of advances, from 0.08% in 4QFY18. Slippage ratio was contained at 0.37% in 1QFY19, vs. 0.52% in 1QFY18. Net security receipts as a percentage of total assets stood at 0.06%.
- Operating profit showed a healthy growth of 38.8%YoY to INR 4.3bn aided by robust growth in other income (27% YoY). Core fee income (89% of Other Income) grew by 58.4% YoY taking the share of other income to Net revenue to 37%.
- Cost to Income ratio fell to 50.8% in 1QFY19 vs. 52.8% in 4QFY18, owing to operating efficiency setting in their newly opened branches. As a result, the bank reported a healthy PAT of INR 1.9bn (34.8% YoY), in line with our expectation of INR 1.89bn. Going forward, the company has guided that Cost to Income ratio would inch up to 52-53% by FY19E, owing to technological and branch up gradation.
- The Bank has completed the acquisition of 100% equity stake in its subsidiary Swadhaar Finserve Private Limited (SFPL) (60.48% in 4QFY18). With 348 branches and >1mn customers, SFPL is a Business Correspondent focused on micro-banking, MSME and is RBL's go-to vehicle for its expansion in these segments.

Valuation: Robust loan growth trajectory and well-maintained asset quality coupled with healthy margins and improving Cost-Income ratio gives a positive outlook for the bank. We maintain the buy rating on the stock, with a target price of INR 642 valuing at 3.4X of FY20E P/ABV.

Risks: Asset quality deterioration as the share of relatively riskier segment increases, slower than expected CASA mobilization, exit of any Key Managerial Personnel.

Results Summary 1QFY19

Y/E March (INR bn)	1QFY19	1QFY18	YoY Growth	4QFY18	QoQ Growth
Net Interest Income	5.53	3.78	46.07%	5.00	10.44%
Other Income	3.26	2.57	26.88%	3.12	4.48%
Pre Provisioning Profit	4.32	3.11	38.84%	3.83	12.85%
PAT	1.90	1.41	34.76%	1.78	6.69%
Cost / Income (%)	50.80	50.99		52.85	
Gross NPA (%)	1.40	1.46		1.40	
Net NPA (%)	0.75	0.81		0.78	
Prov Coverage ratio (%)	60.41	57.99		57.57	
CAR (%)	14.23	13.06		15.33	

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