

RBL Bank

Sector: Banking /Mid-Cap | Earnings Update – 3QFY19

BUY

30 January 2019

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 288 interconnected branches and 390 interconnected ATMs spread across 20 Indian states and union territories serving ~5.82mn 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 499bn as of 3QFY19 with a deposit base of INR 522bn.

Sensex	35,592
Nifty	10,642
Price	INR 562
Target Price	INR 633
Recommendation	BUY
52 Week High/Low	INR 652/439
Bloomberg / Reuters	RBK IN/ RATB.BO
Equity (shares in mn)	428.1
Mkt. Cap in bn	INR 240.53/ \$ 3.38
Avg. Daily Vol. ('000)	1671.00
Avg. Daily Vol. (mn)	INR 938.85 / \$ 13.20

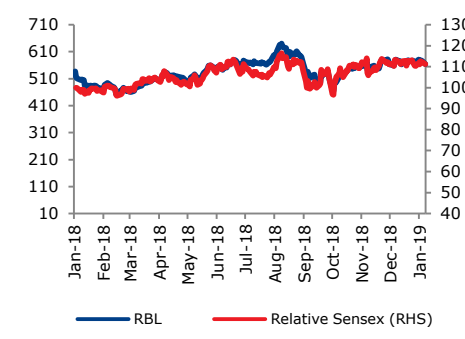
Shareholding	Dec17	Sep18	Dec 18
Promoters (%)	0.00	0.00	0.00
FII (%)	14.56	14.19	15.92
DII (%)	16.11	24.05	24.54
Others (%)	69.33	61.76	59.54
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019E	2020E	2021E
Net Interest Inc	25.0	30.3	38.7
Other Inc	13.8	15.5	19.1
Pre Prov Profit	18.8	20.6	25.7
PAT	9.0	10.6	12.5
EPS	21.0	24.8	29.1
EPS growth (%)	33.5	18.1	17.4
PE	26.8	22.7	19.3
P /ABV	3.4	3.0	2.7
Div Yield (%)	0.4	0.4	0.4
ROA (%)	1.3	1.3	1.2
ROE (%)	12.7	13.4	13.9
Tier – 1 (%)	12.5	11.9	11.3
CAR (%)	13.8	13.2	12.8

Performance %

	1M	3M	12M
RBL	-2.9	13.2	10.4
Sensex	-1.2	6.9	-1.1



Robust growth in AUM and fee income

- RBL's advances grew by 35.2% YoY to INR 498.9bn in 3QFY19, missing CSEC's estimate of 40.3% YoY growth. The growth predominantly came from Retail assets (67% YoY), DB&FI segment (42% YoY) and C&IB segment (27.9% YoY). The wholesale & retail mix remained at 57% and 43% respectively. Based on their internal ratings, ~96.6% of the advances is offered to BBB- or higher rated borrowers. The management expects loan book to grow at 30-35% till FY20E.
- Deposits grew by 35.1% YoY (above CSEC's estimate of 31%YoY) to INR 522bn supported by increase in CASA base. CASA deposits grew by 38.5%YoY taking CASA ratio to 24.6% from 24% in 3QFY18. The management reiterated that it targets a growth of 0.75-1% every year, till FY20 in CASA ratio. The digital acquisition channel now contributes 40-50% of new (deposit) account openings, implying granularity in funding profile coupled with low cost of acquisition.
- Net Interest Income grew by 40.2% YoY and stood at INR 6.6bn (in line with CSEC's estimates of INR 6.4bn) led by growth in advances and margin expansion. Reported NIM improved by 21bps YoY (2bps QoQ) to 4.1% primarily led by robust growth in retail advances, coupled with a 54bps YoY rise in yield on advances. Cost of funds remained flat also spiked by 40bps YoY led by 40bps rise in cost of deposits.
- Sequentially, slippages spiked by 49% to INR 2.1bn. Hence GNPA's in absolute numbers rose by 8% QoQ to INR 7bn. However, due to healthy loan book growth GNPA as a % of advances dipped to 1.38% (down 18bps YoY/ 2 bps QoQ). Due to higher slippages, provisions this quarter spiked by 95% YoY to INR 1.6bn. PCR stood at 63.2%.
- Restructured assets improved to 0.09% of advances, from 0.18% in 3QFY18. Also, on a YoY basis, Slippage ratio was contained at 0.46% in 3QFY19, vs. 0.63% in 3QFY18. Net security receipts as a percentage of total assets declined to 0.05% (down 1bp QoQ).
- Operating profit showed a healthy growth of 49.5%YoY to INR 4.99bn aided by robust growth in other income (45% YoY). Core fee income (92% of Other Income) grew by a robust 50.6% YoY, taking the share of other income to Net revenue to 36%.
- Sequentially, Cost to Income ratio dipped to 51.6%, due to robust growth in fee income and lower growth in opex (35%YoY). Hence, despite a 95% surge in provisions, the bank saw a healthy PAT growth of 36.2% YoY (in line with CSEC's estimate of INR 2.31bn).
- The management plans to add-up 25 more branches in 4QFY19 and 60-70 branches in FY20E to further aid in CASA accretion. The management also highlighted that going forward, the focus will also be on expanding the credit card segment in order to further ramp up the fee income.

Valuation: Robust loan growth trajectory and well-maintained asset quality coupled with healthy margins, rapidly growing fee income and expected improvements in opex due to technological up gradation, gives a positive outlook for the bank. Hence, we give the stock a BUY rating, with a target price of INR 633 valuing at 3X of FY21E 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 3QFY19

Y/E March (INR bn)	3QFY19	3QFY18	YoY Growth	2QFY19	QoQ Growth
Net Interest Income	6.55	4.67	40.19%	5.93	10.47%
Other Income	3.74	2.58	44.86%	3.33	12.29%
Pre Provisioning Profit	4.98	3.33	49.50%	4.49	11.01%
PAT	2.25	1.65	36.21%	2.05	10.10%
Cost / Income (%)	51.56	54.04		51.51	
Gross NPA (%)	1.38	1.56		1.40	
Net NPA (%)	0.72	0.97		0.74	
Prov Coverage ratio (%)	63.22	52.54		61.45	
CAR (%)	12.86	15.03		13.12	

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