

RBL Bank

Refer to important disclosures at the end of this report

Deposit scare behind, but asset quality risk persists

CMP: Rs 182

as of (July 28, 2020)

TP: Rs 195 (▲)

12 months

Rating: HOLD (■)

Upside: 7.2 %

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- Despite subdued business growth, RBL reported a PAT of Rs1.4bn (est: Rs0.9bn), aided by low opex and contained provisions. The GNPA ratio declined 17bps qoq to 3.5%, while the bank improved its specific PCR to 53% (up 900bps qoq).
- Loan growth remains subdued due to Covid-19-led disruptions and continued de-bulking of the corporate book. However, the bank has recovered from the deposit scare in Q4, with 7% qoq growth and CASA touching 30% for the first time.
- The overall moratorium rate fell to 13.7% from 33% in value terms, but remains sticky for Cards at 22%. Cumulative contingent provisions now stand at Rs3.5bn (up Rs2.4bn during Q1), 60bps of loans, which we believe need to be further accelerated.
- We retain the Hold rating with a revised TP of Rs195, based on 0.8x Sep FY22E ABV. With the deposit scare largely behind, we believe that the stock will now largely track the asset quality performance, with risk on its retail book likely to remain higher.

Focus clearly remains on deposit growth: The loan book shrank 2% qoq/flat yoy, owing to the continued strategy of de-bulking the wholesale book. Card spends dropped 37% for the bank, which was still lower than a 64% drop for the industry in April. Per card spends recovered to 78% in June and stood at 84% of March levels in July, which according to the management, should lead to a gradual revival of fee income. The bank expects overall disbursements to normalize only after Q3FY21 while growth targets being pushed by another 5-6 months. Deposits have managed to recover post the Yes Bank saga despite reduction in rates because of increased branch presence and increased focus on customer penetration, resulting in a higher CASA of 30%. NIMs slipped a bit to 4.85% but largely in line with expectation due to lower LDR. The bank expects to further cut the cost of deposits, however, higher liquidity (average LCR of 164%) and slow growth could weigh on its NIM in the near term.

Asset quality risk to persist: Headline GNPA ratio improved to 3.5% during Q1 on account of the moratorium. Given the higher retail/SME moratorium rate, we expect incremental stress to flow more from retail/SME/MFI book, contributing nearly 63% of loans. Credit card moratorium rate remains sticky at 22%, with an overlap rate of 60% from Phase 1 and revolve rate too has gone up. Thus, the bank expects higher credit cost (up 70% yoy) coming from the credit card pool. RBL believes that most of the corporate pain is behind, but given an increase in BB and below rated corporate portfolio to 7.5% from 6.9% in Q4 and possible 2nd order impact of Covid-19 is expected in the corporate book at a later stage, we prefer to remain conservative.

Outlook and valuations: We cut our earnings estimates for FY21/22 by ~4%/2%, factoring in slower business/fee growth and higher LLP. We expect RBL's RoA to remain flat and low at 0.6% in FY21, but should improve in FY22/FY23 to 1.1/1.4% as business growth picks up and LLP moderates. RBL timely raised capital with current Tier I at 15.2% and thus, management guides that it does not need any immediate fresh capital raise. We maintain Hold/UW in EAP, with a revised TP of Rs195 (based on 0.8x Sep-FY22E ABV) from Rs145 earlier (based on 0.6x FY22E ABV). Key risks to our call include higher-than-expected stress build-up in corporate/retail portfolio and slower-than-expected growth.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 8\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net income	39,818	55,398	60,410	66,100	77,061
Net profit	8,670	5,057	5,549	11,512	16,554
EPS (Rs)	20.5	10.8	10.9	22.6	32.5
ABV (Rs)	172.5	207.1	197.2	217.8	249.1
RoA (%)	1.2	0.6	0.6	1.1	1.4
RoE (%)	12.2	5.6	5.1	9.9	12.8
PE (x)	8.9	16.8	16.7	8.0	5.6
P/ABV	1.0	0.9	0.9	0.8	0.7

Source: Company, Emkay Research



Change in Estimates

EPS Chg FY21E/FY22E (%)	3.9/1.4
Target Price change (%)	34.5
Target Period (Months)	12
Previous Reco	HOLD

Emkay vs Consensus

EPS Estimates		
	FY21E	FY22E
Emkay	10.9	22.6
Consensus	8.8	20.8
Mean Consensus TP (12M)	Rs 180	

Stock Details

Bloomberg Code	RBK IN
Face Value (Rs)	10
Shares outstanding (mn)	509
52 Week H/L	465 / 102
M Cap (Rs bn/USD bn)	93 / 1.24
Daily Avg Volume (nos.)	45,313,980
Daily Avg Turnover (US\$ mn)	91.8

Shareholding Pattern Jun '20

Promoters	-%
FIIIs	29.3%
DIIIs	19.2%
Public and Others	51.5%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(5)	44	(46)	(60)
Rel. to Nifty (12)	20	(43)	(60)	

Relative price chart



Source: Bloomberg

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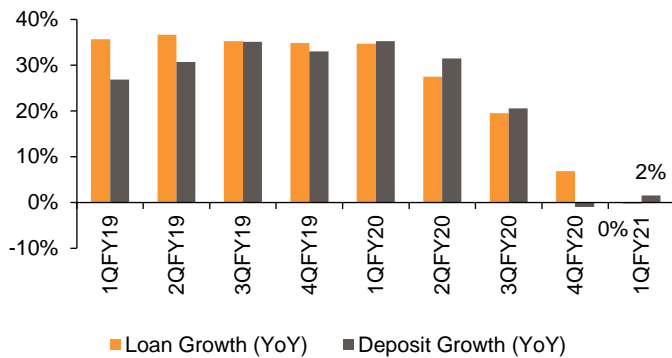
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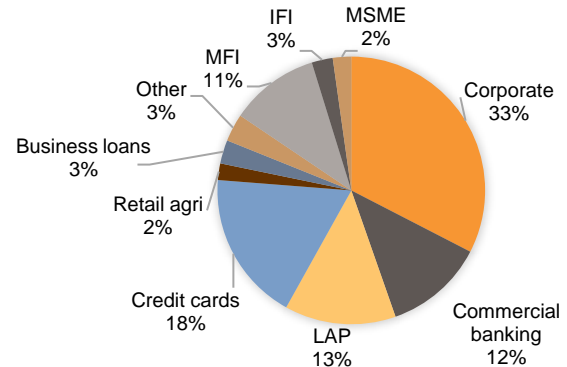
Story in Charts

Exhibit 1: Overall loan growth remains subdued, but deposit growth improves



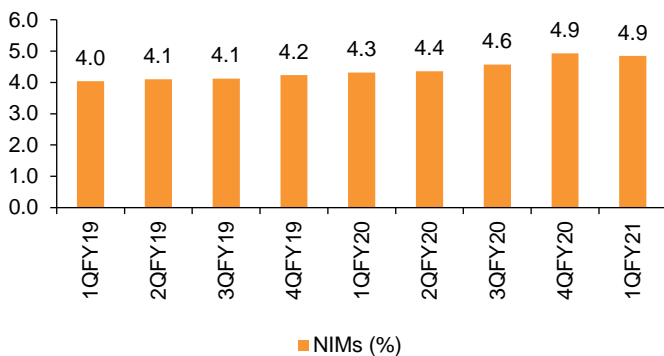
Source: Company, Emkay Research

Exhibit 2: Corporate book share looks higher due to moderation in retail book



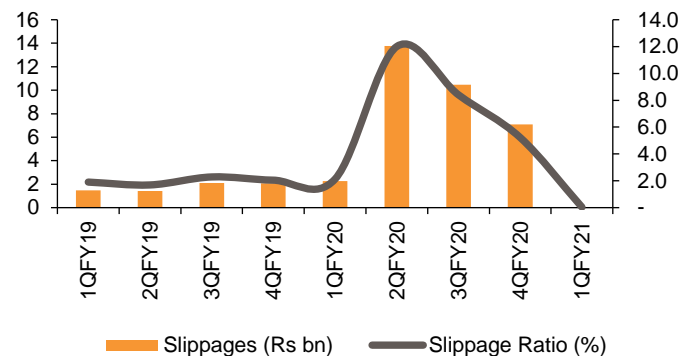
Source: Company, Emkay Research

Exhibit 3: NIMs slip marginally, impacted by lower LDR



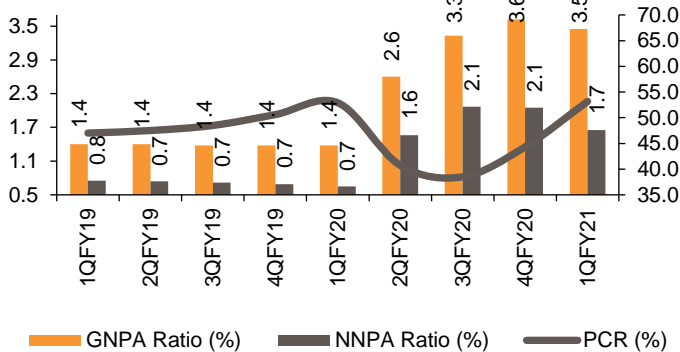
Source: Company, Emkay Research

Exhibit 4: Fresh slippages abysmal at Rs50mn due to moratorium



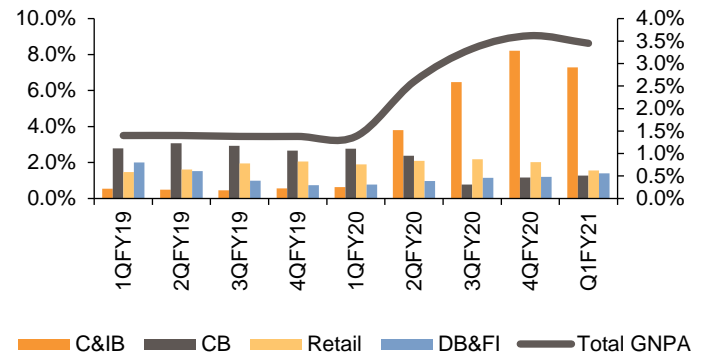
Source: Company, Emkay Research

Exhibit 5: RBL shores up PCR to 53%



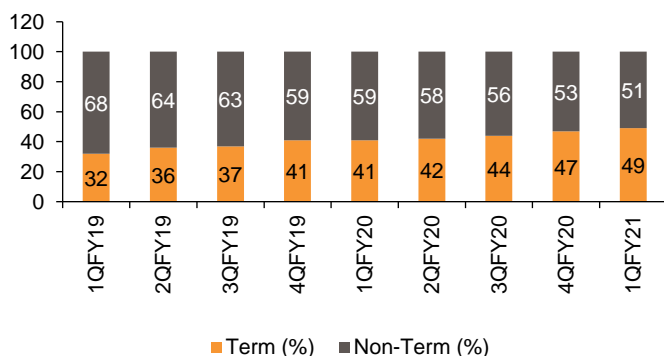
Source: Company, Emkay Research

Exhibit 6: Expect incremental stress in FY21 to largely flow from retail/SME and MFI book



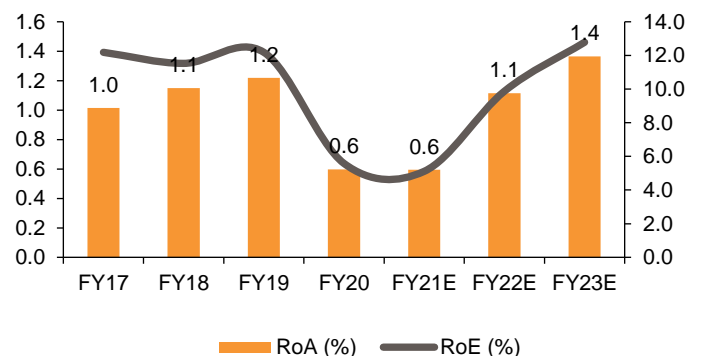
Source: Company, Emkay Research

Exhibit 7: Low risk term balances see an increase within the credit card book sequentially

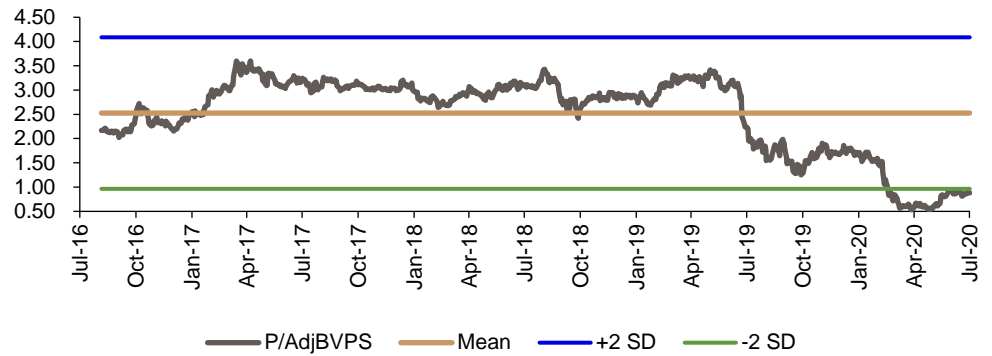


Source: Company, Emkay Research

Exhibit 8: RoA normalization to be pushed back to FY22E



Source: Company, Emkay Research

Exhibit 9: The stock currently trades at 0.9x – 1 year forward ABV

Source: Company, Emkay Research

Exhibit 10: Actual vs. estimates – Q1FY21

Rs mn	Actuals	Estimates		% Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	13,746	14,318	14,727	-4%	-7%	Lower business growth and fee impacted net income
PPOP	6,897	7,052	6,861	-2%	1%	Lower opex offset net income partially
PAT	1,412	894	1,737	58%	-19%	Contained provisions led to a beat

Source: Company, Emkay Research

Exhibit 11: Quarterly summary

Rs (mn)	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21	YoY (%)	QoQ (%)	FY20	FY21E	YoY (%)
Interest Earned	20,227	21,262	21,573	22,082	22,350	10	1	85,144	89,957	6
Interest Exp	12,054	12,575	12,347	11,873	11,937	-1	1	48,847	49,361	1
Net Interest Income	8,173	8,687	9,227	10,210	10,413	27	2	36,297	40,596	12
Global NIMs (reported)	4.31	4.35	4.57	4.93	4.85	54bps	-8bps	4.50	4.64	13bps
Non-interest Income	4,812	4,415	4,870	5,005	3,333	-31	-33	19,101	19,815	4
Operating Expenses	6,797	6,744	6,775	7,696	6,849	1	-11	27,882	29,427	6
Pre Provisioning Profit	6,188	6,358	7,322	7,519	6,897	11	-8	27,516	30,983	13
Provision & Contingencies	2,132	5,333	6,383	6,012	5,002	135	-17	19,989	23,568	18
PBT	4,056	1,025	939	1,507	1,896	-53	26	7,528	7,415	-1
Income Tax Expense (Gain)	1,386	482	239	364	483	-65	33	2,471	1,866	-24
Net Profit/(Loss)	2,671	543	700	1,143	1,412	-47	24	5,057	5,549	10
Gross NPA (%)	1.38	2.60	3.33	3.62	3.45	207bps	-17bps	3.62	5.04	142bps
Net NPA (%)	0.65	1.56	2.07	2.05	1.65	100bps	-40bps	2.05	2.33	28bps
Deposits (Rs in bn)	608	628	629	578	617	2	7	578	668	16
Net Advances (Rs in bn)	568	585	596	580	567	0	-2	580	631	9

Source: Company, Emkay Research

Exhibit 12: Revision in earnings

Y/E Mar (Rs mn)	FY21E			FY22E			FY23E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	59,581	60,410	1.4%	65,795	66,100	0.5%	76,846	77,061	0.3%
PPOP	28,273	30,983	9.6%	29,330	32,356	10.3%	34,361	37,009	7.7%
PAT	5,353	5,549	3.7%	11,330	11,512	1.6%	15,417	16,554	7.4%
EPS (Rs)	10.5	10.9	3.9%	22.3	22.6	1.4%	22.3	22.6	1.4%
BV (Rs)	215.6	218.9	1.5%	234.2	239.4	2.2%	234.2	239.4	2.2%

Source: Company, Emkay Research

Exhibit 13: Key assumptions

	FY20	FY21E	FY22E	FY23E
Loan Growth %	6.8	8.7	14.8	25.3
Deposit Growth %	(1.0)	15.6	14.4	23.3
NIM %	4.5	4.6	4.6	4.6
GNPA %	3.6	5.0	4.9	4.2
Credit Cost %	3.6	3.9	2.3	1.6

Source: Company, Emkay Research

Exhibit 14: Key ratios and trends

	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	4QFY20	1QFY21
Loans Rs mn	421,980	458,727	498,926	543,082	568,367	584,761	596,350	580,191	566,830
Loans YoY %	35.6	36.6	35.2	34.9	34.7	27.5	19.5	6.8	(0.3)
Loans QoQ %	4.8	8.7	8.8	8.9	4.7	2.9	2.0	(2.7)	(2.3)
Composition %									
Corporate	41	41	40	39	39	38	36	31	35
SME	19	18	17	16	15	14	13	13	12
Retail	23	24	26	27	30	32	34	37	38
Agri	4	3	3	3	3	3	3	3	2
DB & FI	14	14	14	14	14	13	14	16	13
Liability Profile									
CASA %	24.4	24.5	24.6	25.0	25.8	26.5	26.8	29.6	30.1
CA %	11.5	11.9	12.1	10.9	9.3	10.4	10.4	13.0	10.8
SA %	12.9	12.6	12.5	14.1	16.5	16.1	16.4	16.6	19.3
No. of Branches	266	268	288	324	332	332	371	386	392
NIM %	4.04	4.08	4.12	4.23	4.31	4.35	4.57	4.93	4.85
Yield on Advances %	10.80	10.90	11.20	11.80	12.00	12.10	12.30	12.50	13.00
Cost of Deposits %	6.60	6.70	6.80	6.90	7.00	6.90	6.70	6.40	6.30
Asset Quality									
GNPA (%)	1.4	1.4	1.4	1.4	1.4	2.6	3.3	3.6	3.5
NNPA (%)	0.8	0.7	0.7	0.7	0.7	1.6	2.1	2.1	1.7
PCR (%)	47.0	47.5	48.5	50.6	52.9	40.7	38.5	44.3	53.2
Slippages (Rs mn)	1,480	1,420	2,110	2,060	2,250	13,770	10,480	7,090	50
Slippages - annualized (%)	1.9	1.7	2.3	2.0	2.1	12.0	8.4	5.2	0.0
CAR %	14.6	13.1	12.9	13.5	12.1	12.3	15.7	16.4	16.4
Tier I %	13.1	12.5	11.6	12.1	11.3	11.3	15.0	15.3	15.2
ROE Decomposition % (on total assets)									
NII	3.6	3.7	3.8	3.9	4.0	4.0	4.1	4.5	4.6
Other Income (Ex Treasury)	1.9	2.0	2.0	2.0	2.2	2.0	2.3	2.2	1.1
Treasury	0.2	0.0	0.2	0.1	0.1	0.1	(0.1)	(0.0)	0.3
Opex	2.9	2.9	3.0	3.1	3.3	3.1	3.0	3.4	3.0
PPOP	2.8	2.8	2.9	2.9	3.0	3.0	3.3	3.3	3.0
Provisioning Cost	0.9	0.9	0.9	1.0	1.0	2.5	2.9	2.7	2.2
PBT	1.9	1.9	1.9	1.9	2.0	0.5	0.4	0.7	0.8
Tax	0.7	0.6	0.6	0.6	0.7	0.2	0.1	0.2	0.2
ROA	1.22	1.26	1.29	1.30	1.30	0.25	0.31	0.51	0.62
ROE	11.2	11.7	12.6	13.3	13.9	2.8	3.1	4.3	5.3

Source: Emkay Research, Company

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Net interest income	25,395	36,297	40,596	44,658	52,528
Other income	14,424	19,101	19,815	21,442	24,534
Fee income	11,656	15,231	15,993	17,592	20,231
Net income	39,818	55,398	60,410	66,100	77,061
Operating expenses	20,420	27,882	29,427	33,744	40,052
Pre provision profit	19,398	27,516	30,983	32,356	37,009
PPP excl treasury	18,615	25,921	29,388	30,841	35,570
Provisions	6,407	19,989	23,568	16,971	14,887
Profit before tax	12,992	7,528	7,415	15,385	22,122
Tax	4,322	2,471	1,866	3,872	5,568
Tax rate	33	33	25	25	25
Profit after tax	8,670	5,057	5,549	11,512	16,554

Balance Sheet

Y/E Year End (Rs mn)	FY19	FY20	FY21E	FY22E	FY23E
Equity	4,267	5,087	5,090	5,090	5,090
Reserves	71,201	100,670	106,291	116,785	132,066
Net worth	75,468	105,757	111,381	121,875	137,156
Deposits	583,944	578,121	668,422	764,705	942,748
Borrowings	111,021	162,767	146,491	139,166	146,124
Total liabilities	803,588	889,703	976,707	1,089,697	1,336,430
Cash and bank	48,395	64,150	67,358	70,725	74,262
Investments	168,404	181,497	202,374	217,931	258,546
Loans	543,082	580,190	630,634	723,831	906,653
Others	22,056	34,820	43,936	51,028	66,009
Total assets	803,588	889,776	976,707	1,089,697	1,336,430

Key Ratios (%)

Y/E Year End	FY19	FY20	FY21E	FY22E	FY23E
NIM	3.7	4.5	4.6	4.6	4.6
Non-II/avg assets	2.0	2.3	2.1	2.1	2.0
Fee income/avg assets	1.6	1.8	1.7	1.7	1.7
Opex/avg assets	2.9	3.3	3.2	3.3	3.3
Provisions/avg assets	0.9	2.4	2.5	1.6	1.2
PBT/avg assets	1.8	0.9	0.8	1.5	1.8
Tax/avg assets	0.6	0.3	0.2	0.4	0.5
RoA	1.2	0.6	0.6	1.1	1.4
RoAE	12.2	5.6	5.1	9.9	12.8
GNPA (%)	1.4	3.6	5.0	4.9	4.2
NNPA (%)	0.7	2.0	2.3	2.0	1.5

Per Share Data (Rs)	FY19	FY20	FY21E	FY22E	FY23E
EPS	20.5	10.8	10.9	22.6	32.5
BVPS	178.3	226.1	218.9	239.4	269.4
ABVPS	172.5	207.1	197.2	217.8	249.1
DPS	2.7	0.0	0.0	2.0	2.5

Valuations (x)	FY19	FY20	FY21E	FY22E	FY23E
PER	8.9	16.8	16.7	8.0	5.6
P/BV	1.1	0.9	0.9	0.8	0.7
P/ABV	1.0	0.9	0.9	0.8	0.7
P/PPOP	4.0	3.3	3.0	2.8	2.5
Dividend Yield (%)	1.5	0.0	0.0	1.1	1.4

Source: Company, Emkay Research

Growth (%)	FY19	FY20	FY21E	FY22E	FY23E
NII	43.8	42.9	11.8	10.0	17.6
PPOP	45.7	41.8	12.6	4.4	14.4
PAT	36.5	(41.7)	9.7	107.5	43.8
Loans	34.9	6.8	8.7	14.8	25.3

Quarterly (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21
NII	8,173	8,687	9,227	10,210	10,413
NIM(%)	4.3	4.4	4.6	4.9	4.9
PPOP	6,188	6,358	7,322	7,519	6,897
PAT	2,671	543	700	1,143	1,412
EPS (Rs)	6.24	1.26	1.38	2.25	2.77

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-19	Dec-19	Dec-19	Mar-20	Jun-20
Promoters	-	-	-	-	-
FIIIs	24.3	24.3	22.0	25.5	29.3
DIIIs	27.0	27.1	27.8	27.2	19.2
Public and Others	48.7	48.6	50.2	47.3	51.5

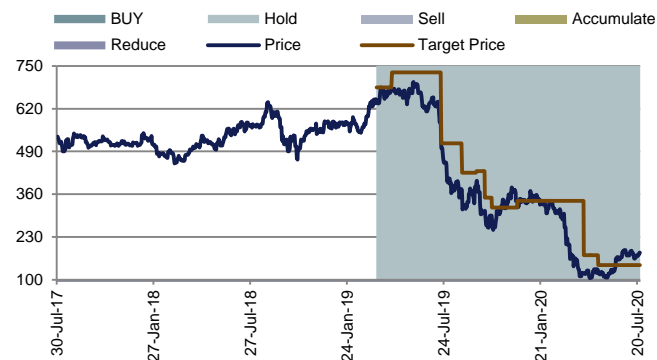
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
8-May-20	119	145	12m	Hold	Anand Dama
11-Apr-20	121	175	12m	Hold	Anand Dama
23-Jan-20	339	340	12m	Hold	Anand Dama
9-Dec-19	335	340	12m	Hold	Anand Dama
22-Oct-19	287	320	12m	Hold	Anand Dama
9-Oct-19	310	350	12m	Hold	Anand Dama
23-Sep-19	398	430	12m	Hold	Anand Dama
27-Aug-19	357	425	12m	Hold	Anand Dama
19-Jul-19	500	515	12m	Hold	Anand Dama
18-Apr-19	675	730	12m	Hold	Anand Dama
20-Mar-19	645	685	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
BFSI-Banks	18.63	18.59	-0.2%	-4	100.00
Axis Bank	1.66	1.80	9%	14	9.69
AU Small Finance Bank	0.08	0.05	-35%	-3	0.28
Bandhan Bank	0.16	0.16	0%	0	0.86
Bank of Baroda	0.10	0.00	-100%	-10	0.00
Canara Bank	0.05	0.00	-100%	-5	0.00
City Union Bank	0.15	0.15	0%	0	0.81
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.19	0.24	28%	5	1.29
HDFC Bank	7.70	7.96	3%	26	42.75
ICICI Bank	3.87	4.05	5%	18	21.76
Indian Bank	0.00	0.00	NA	0	0.00
Indusind Bank	0.51	0.58	14%	7	3.14
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.73	2.27	-17%	-46	12.21
Punjab National Bank	0.08	0.00	-100%	-8	0.00
RBL Bank	0.12	0.12	0%	0	0.67
State Bank of India	1.18	1.18	0%	0	6.33
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.00	0.00	NA	0	0.00
Cash	0.00	0.04	NA	4	0.2

Source: Emkay Research

* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

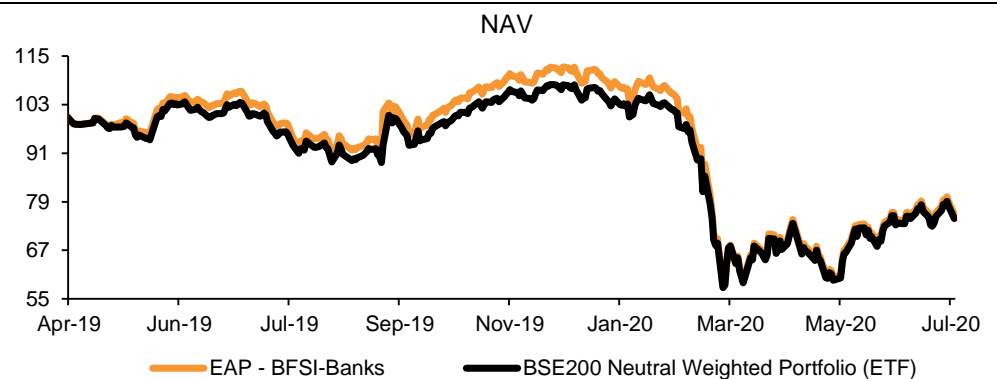
Sector portfolio NAV

	Base					Latest
	1-Apr-19	25-Oct-19	27-Jan-20	27-Apr-20	26-Jun-20	27-Jul-20
EAP - BFSI-Banks	100.0	102.3	107.4	69.4	74.6	75.9
BSE200 Neutral Weighted Portfolio (ETF)	100.0	98.6	103.0	68.6	73.8	74.9

*Performance measurement base date 1st April 2019

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 29 Jul 2020 03:52:11 (SGT)

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