

# RBL Bank

Refer to important disclosures at the end of this report

## Management saga could delay business normalization story

In a surprising turn of events, the RBI has appointed its chief general manager, Mr Yogesh Dayal, as an additional director on RBL's board for two years; current MD & CEO Mr Vishwavir Ahuja has gone on medical leave; and Executive Director Mr Rajeev Ahuja has been elevated as interim MD & CEO for a smooth transition. Here are our views and key takeaways from management's call:

- Management did not provide satisfactory reasons for the RBI's appointment of its official as an additional director on the bank's board and the sudden management rejig. But we believe that the RBI's long-term discomfort with 1) the unsecured heavy asset-side construct ((MFI + Cards at 31%) creating asset quality risks as seen during Covid and 2) poor compliance with its directives (about risk management/governance/succession) could have possibly led to its swift intervention, apart from ensuring a smooth management transition and comforting the stakeholders.
- Management emphasized that the change in the top management/board is not due to any asset quality issues/divergence and that recovery trends are largely in line with expectations, barring in MFI. Management reiterated its guidance to bring down NNPA's to below 2% from current 2.1% by improving PCR and achieving exit RoA of 1% by Q4. The medium to long-term strategy to build the retail deposit base and diversify the asset book toward a more secured portfolio, including mortgages, will continue and possibly be accelerated.
- The Nomination and Remuneration Committee (NRC) under the oversight of the board will search and recommend a candidate to replace Mr Vishwavir Ahuja in due course, which could typically include internal/external candidates. Mr Rajeev Ahuja (interim MD & CEO) has expressed his interest in the permanent MD & CEO candidature.
- RBL carries a liquidity buffer of Rs120-130bn (16-17% of deposit base) to deal with the initial deposit run-down scare amid the turn of events, which could be limited. Management believes that it has built a reasonably strong retail deposit franchise in past three years after the deposit scare in Mar'19 - Yes Bank saga and is now battle-tested to deal with any eventuality.
- Our view:** We believe, in order to comfort investors, more explanation will be required from management to justify the sudden exit of Mr Vishwavir Ahuja nearly six months before his term ends (Jun'22) and the RBI's intervention (typically seen in weak banks like Ujjivan, Dhanlaxmi, LVB, J&K Bank). We believe the story will unfold in due course. That said, we draw some comfort from the appointment of Mr Rajeev Ahuja (part of the turnaround journey) as interim MD & CEO, healthy liquidity buffers/capital ratios (Tier I at 15.5%) and management's strategic intent to change the portfolio mix toward secured assets. However, near/medium-term business/asset quality dislocation is inevitable. Thus, we cut our earnings estimates for F22/FY23/FY24 by 176%/13%/12%. We also cut our P/ABV multiple to 0.7x Dec'23E from 0.9x. Accordingly, we cut the TP to Rs165 from Rs215, given lower RoE (8-10% over FY23-24E vs. earlier 9-11%) and near-term management uncertainty. Retain Hold with UW in EAP. We will keep an eye on any further development at the bank.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 6\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net income	55,398	58,453	63,246	66,941	73,609
Net profit	5,057	5,079	(920)	10,071	14,311
EPS (Rs)	10.8	9.2	(1.5)	16.8	23.9
ABV (Rs)	207.1	211.9	196.9	214.2	235.8
RoA (%)	0.6	0.5	(0.1)	1.0	1.2
RoE (%)	5.6	4.4	(0.7)	7.7	10.1
PE (x)	16.0	18.8	(112.5)	10.3	7.2
P/ABV	0.8	0.8	0.9	0.8	0.7

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 173</b> as of (December 26, 2021)	<b>Rs 165 (▼)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>HOLD (■)</b>	<b>(4.6) %</b>

### Change in Estimates

EPS Chg FY22E/FY23E (%)	-176/-13
Target Price change (%)	-23%
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

	EPS Estimates	
	FY22E	FY23E
Emkay	(1.5)	16.8
Consensus	2.7	23.1
Mean Consensus TP (12M)	Rs 225	

### Stock Details

Bloomberg Code	RBK IN
Face Value (Rs)	10
Shares outstanding (mn)	599
52 Week H/L	274 / 156
M Cap (Rs bn/USD bn)	104 / 1.38
Daily Avg Volume (nos.)	10,159,390
Daily Avg Turnover (US\$ mn)	26.5

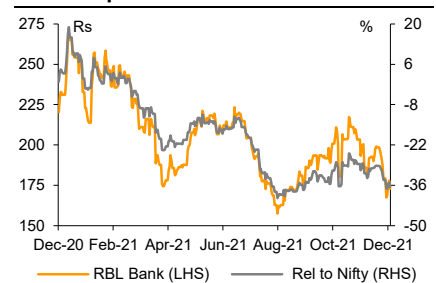
### Shareholding Pattern Sep '21

Promoters	-%
FII's	29.2%
DII's	22.3%
Public and Others	48.5%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	(14)	(7)	(17)	(21)
<b>Rel. to Nifty</b>	(11)	(2)	(23)	(37)

### Relative price chart



Source: Bloomberg

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### Anand Dama

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**Exhibit 1: Change in estimates**

Y/E Mar (Rs mn)	FY22E			FY23E			FY24E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	63,383	63,246	-0.2%	66,889	66,941	0.1%	74,592	73,609	-1.3%
PPOP	30,931	29,694	-4.0%	31,230	30,021	-3.9%	34,530	32,117	-7.0%
PAT	1,211	-920	-176.0%	11,540	10,071	-12.7%	16,211	14,311	-11.7%
EPS (Rs)	2.0	-1.5	-176.0%	19.3	16.8	-12.7%	27.1	23.9	-11.7%
BV (Rs)	213.8	210.2	-1.7%	231.1	226.0	-2.2%	254.2	248.0	-2.4%

Source: Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Net interest income</b>	<b>36,297</b>	<b>37,876</b>	<b>37,831</b>	<b>38,864</b>	<b>41,941</b>
<b>Other income</b>	<b>19,101</b>	<b>20,577</b>	<b>25,414</b>	<b>28,077</b>	<b>31,669</b>
Fee income	15,231	14,358	19,046	21,903	25,626
<b>Net income</b>	<b>55,398</b>	<b>58,453</b>	<b>63,246</b>	<b>66,941</b>	<b>73,609</b>
Operating expenses	27,882	27,544	33,552	36,920	41,492
<b>Pre provision profit</b>	<b>27,516</b>	<b>30,909</b>	<b>29,694</b>	<b>30,021</b>	<b>32,117</b>
<b>PPP excl treasury</b>	<b>25,921</b>	<b>28,036</b>	<b>25,296</b>	<b>26,062</b>	<b>28,555</b>
Provisions	19,989	24,020	30,923	16,563	12,992
<b>Profit before tax</b>	<b>7,528</b>	<b>6,889</b>	<b>(1,229)</b>	<b>13,458</b>	<b>19,125</b>
Tax	2,471	1,810	(309)	3,387	4,814
Tax rate	33	26	25	25	25
<b>Profit after tax</b>	<b>5,057</b>	<b>5,079</b>	<b>(920)</b>	<b>10,071</b>	<b>14,311</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Equity	5,087	5,980	5,980	5,980	5,980
Reserves	100,670	120,598	119,725	129,198	142,313
<b>Net worth</b>	<b>105,757</b>	<b>126,578</b>	<b>125,705</b>	<b>135,178</b>	<b>148,293</b>
Deposits	578,121	731,213	772,003	852,184	963,219
Borrowings	162,767	104,959	87,515	83,139	87,296
<b>Total liabilities</b>	<b>889,703</b>	<b>1,006,458</b>	<b>1,015,417</b>	<b>1,099,737</b>	<b>1,231,016</b>
Cash and bank	64,150	67,047	70,399	73,919	77,615
Investments	181,497	232,300	226,236	237,092	254,632
Loans	580,190	586,224	598,020	657,566	758,904
Others	34,820	49,069	68,493	90,235	98,881
<b>Total assets</b>	<b>889,776</b>	<b>1,006,500</b>	<b>1,015,417</b>	<b>1,099,737</b>	<b>1,231,016</b>

**Key Ratios (%)**

Y/E Year End	FY20	FY21	FY22E	FY23E	FY24E
NIM	4.5	4.3	4.0	4.0	4.0
Non-ll/avg assets	2.3	2.2	2.5	2.7	2.7
Fee income/avg assets	1.8	1.5	1.9	2.1	2.2
Opex/avg assets	3.3	2.9	3.3	3.5	3.6
Provisions/avg assets	2.4	2.5	3.1	1.6	1.1
PBT/avg assets	0.9	0.7	(0.1)	1.3	1.6
Tax/avg assets	0.3	0.2	0.0	0.3	0.4
RoA	0.6	0.5	(0.1)	1.0	1.2
RoAE	5.6	4.4	(0.7)	7.7	10.1
GNPA (%)	3.6	4.3	4.9	4.6	4.1
NNPA (%)	2.0	2.1	1.8	1.4	1.3

Per Share Data (Rs)	FY20	FY21	FY22E	FY23E	FY24E
EPS	10.8	9.2	(1.5)	16.8	23.9
BVPS	226.1	228.7	210.2	226.0	248.0
ABVPS	207.1	211.9	196.9	214.2	235.8
DPS	0.0	0.0	0.0	1.0	2.0

Valuations (x)	FY20	FY21	FY22E	FY23E	FY24E
PER	16.0	18.8	(112.5)	10.3	7.2
P/BV	0.8	0.8	0.9	0.8	0.7
P/ABV	0.8	0.8	0.9	0.8	0.7
P/PPOP	3.2	3.3	3.5	3.4	3.2
Dividend Yield (%)	0.0	0.0	0.0	0.6	1.2

Source: Company, Emkay Research

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<b>Growth (%)</b>	<b>FY20</b>	<b>FY21</b>	<b>FY22E</b>	<b>FY23E</b>	<b>FY24E</b>
NII	42.9	4.3	(0.1)	2.7	7.9
PPOP	41.8	12.3	(3.9)	1.1	7.0
PAT	(41.7)	0.4	(118.1)	(1,195.2)	42.1
Loans	6.8	1.0	2.0	10.0	15.4

<b>Quarterly (Rs mn)</b>	<b>Q2FY21</b>	<b>Q3FY21</b>	<b>Q4FY21</b>	<b>Q1FY22</b>	<b>Q2FY22</b>
NII	9,321	9,082	9,060	9,695	9,155
NIM(%)	4.3	4.2	4.2	4.4	4.1
PPOP	6,818	8,048	8,765	7,661	6,909
PAT	1,442	1,466	748	(4,605)	303
EPS (Rs)	2.83	2.45	1.25	(7.70)	0.51

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Nov-20</b>	<b>Dec-20</b>	<b>Mar-21</b>	<b>Jun-21</b>	<b>Sep-21</b>
Promoters	-	-	-	-	-
FII	34.4	35.2	31.9	32.2	29.2
DII	20.2	21.9	22.7	20.7	22.3
Public and Others	45.3	42.9	45.4	47.1	48.5

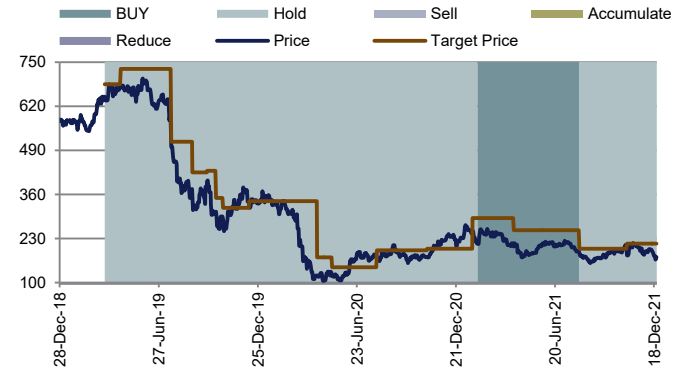
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
29-Oct-21	181	215	12m	Hold	Anand Dama
3-Aug-21	187	200	12m	Hold	Anand Dama
5-Apr-21	206	255	12m	Buy	Anand Dama
29-Jan-21	214	290	12m	Buy	Anand Dama
20-Jan-21	254	290	12m	Hold	Anand Dama
29-Oct-20	175	200	12m	Hold	Anand Dama
29-Jul-20	177	195	12m	Hold	Anand Dama
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 13 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 based on Current NAV	Change vs last published EAP (bps)
<b>BFSI-Banks</b>	<b>19.00</b>	<b>18.97</b>	<b>-0.1%</b>	<b>-3</b>	<b>100.00</b>	
Axis Bank	1.86	1.91	3%	5	10.07	0
AU Small Finance Bank	0.24	0.21	-10%	-2	1.12	0
Bandhan Bank	0.18	0.15	-17%	-3	0.77	0
Bank of Baroda	0.15	0.15	-1%	0	0.80	0
Canara Bank	0.11	0.00	-100%	-11	0.00	0
City Union Bank	0.00	0.10	NA	10	0.53	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.10	NA	10	0.52	0
Federal Bank	0.16	0.23	40%	7	1.22	0
HDFC Bank	6.35	6.34	0%	0	33.39	0
ICICI Bank	5.10	5.19	2%	9	27.31	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.53	0.61	16%	8	3.22	0
Karur Vysya Bank	0.00	0.00	NA	0	0.00	0
Kotak Mahindra Bank	2.34	2.01	-14%	-33	10.58	0
Punjab National Bank	0.11	0.00	-100%	-11	0.00	0
RBL Bank	0.00	0.07	NA	7	0.35	0
State Bank of India	1.78	1.90	7%	12	9.98	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.05	0.00	-100%	-5	0.00	0
Yes Bank	0.04	0.00	-100%	-4	0.00	0
<b>Cash</b>	<b>0.00</b>	<b>0.03</b>	<b>NA</b>	<b>3</b>	<b>0.15</b>	<b>0</b>

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	23-Dec-20	23-Jun-21	23-Sep-21	23-Nov-21	23-Dec-21
EAP - BFSI-Banks	100.0	103.1	118.0	129.5	127.8	121.0
BSE200 Neutral Weighted Portfolio (ETF)	100.0	101.5	115.6	126.7	125.4	118.6

\*Performance measurement base date 1<sup>st</sup> April 2019

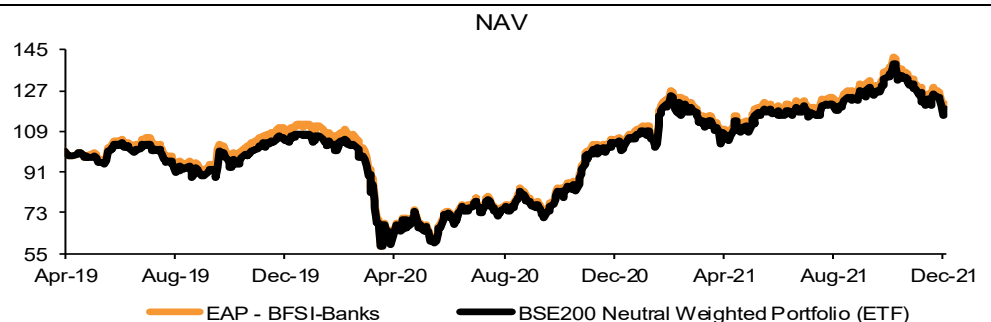
Source: Emkay Research

### Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	-5.3%	-6.6%	2.5%	17.4%
BSE200 Neutral Weighted Portfolio (ETF)	-5.4%	-6.4%	2.6%	16.9%

Source: Emkay Research

### NAV chart



Source: Emkay Research

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

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

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

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

Completed Date: 27 Dec 2021 02:37:20 (SGT)

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