

RBL Bank

Some positives, but key concerns remain

A strong rebound in fee income and lower-than-expected operating costs resulted in a significant earnings beat. The bank saw improving deposit (particularly retail) traction, which is creditable. The imminent capital raise is an additional positive. We continue to expect a sharp rise in GNPA's in FY21E. Credit costs will remain elevated in the near term, denting return ratios. This drives our REDUCE rating. We have a target price of Rs 179.

- **Funding:** While CRAR stood at 16.5%, it stands to be further boosted by an imminent capital raise (~Rs 15.6bn). The bank's performance on the deposit front was creditable- 4.5% QoQ growth, 20.5/8.8% CASA growth and ~11% YoY/QoQ growth in deposits from retail and small business customers (now 34.4% of total deposits). We will continue to track the progress on this front.
- **Asset quality:** On the retail front- microfinance collection efficiency improved to ~93%- we find this promising. In case of the credit card portfolio, trends were not as promising as collection efficiency hovered at ~90%. On the wholesale side, the portfolio rating mix improved; however, the drivers of this change remain a little ambiguous. As a result of the re-balancing of this portfolio, post asset quality troubles seen in FY20, the management does not expect material slippages from this portfolio- we are not entirely convinced. We continue to expect a sharp rise in GNPA's due to the relatively high proportion of BB and below rated wholesale loans and low credit card collection efficiency
- Even as **overall loans de-grew** 4%/0.9% YoY/QoQ, non-wholesale advances registered strong growth (+23/7%), led by 41/9.7% growth in credit card debt and 29.8/9.3% growth in microfinance. We are surprised by the sharp increase in growth in both these segments, especially since such loans are of relatively short tenures. We model loan growth of 12.5% over FY21-23E.
- **Margins** registered a sharp sequential decline (-55bps) to 4.3% (-5bps YoY) as the bank reversed interest (~Rs 700-800mn) on non-wholesale accounts that are expected to slip in 3QFY21. The bank expects to see reversals of a similar quantum in 3QFY21. We expect NIMs of 4.6% over FY21-23E.

Financial summary

YE Mar (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	9,321	8,687	7.3%	10,413	-10.5%	36,296	38,106	41,689	47,199
PPOP	7,198	6,358	13.2%	6,897	4.4%	27,516	26,227	28,833	31,992
PAT	1,442	543	165.4%	1,412	2.1%	5,057	5,572	8,587	11,658
EPS (Rs)	2.8	1.3	124.5%	2.8	2.0%	9.9	9.3	14.4	19.5
ROAE (%)						5.6	4.8	6.6	8.3
ROAA (%)						0.60	0.60	0.83	1.00
ABVPS (Rs)						184.6	194.9	210.8	227.6
P/ABV (x)						0.95	0.90	0.83	0.77
P/E (x)						17.7	18.8	12.2	9.0

Change in estimates

Rs mn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	621,190	605,769	-2.5%	697,433	687,856	-1.4%	828,290	816,675	-1.4%
NIM (%)	4.6	4.6	9 bps	4.5	4.6	6 bps	4.5	4.6	2 bps
NII	37,080	38,106	2.8%	40,459	41,689	3.0%	46,218	47,199	2.1%
PPOP	26,142	26,227	0.3%	27,954	28,833	3.1%	31,897	31,992	0.3%
PAT	5,014	5,572	11.1%	8,294	8,587	3.5%	11,125	11,658	4.8%
Adj. BVPS (Rs)	193.3	194.9	0.8%	209.2	210.8	0.8%	223.5	227.6	1.8%

Source: Bank, HSIE Research

REDUCE

CMP (as on 28 Oct 2020)	Rs 176
Target Price	Rs 179
NIFTY	11,730

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 175	Rs 179
EPS %	FY21E	FY22E
	11.1%	3.5%

KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	509
MCap (Rs bn) / (\$ mn)	89/1,209
6m avg traded value (Rs mn)	5,448
52 Week high / low	Rs 391/102

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.6)	38.9	(32.4)
Relative (%)	(7.3)	14.6	(34.1)

SHAREHOLDING PATTERN (%)

	Jun-20	Sept-20
Promoters	-	-
FIs & Local MFs	20.9	20.4
FPIs	41.8	40.4
Public & Others	37.3	39.2
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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