

RBL Bank Limited

BUY

CMP Rs175

Target Rs230

Upside 31.1%

Rising confidence around 1.2%+ RoA delivery in FY22; Upgrade to BUY with 12m PT of Rs230

Capping of potential losses in the high-risk businesses of Cards and MFIs, improvement in rating profile and less vulnerability of the corporate portfolio and impressive handle over cost leads us to upgrade earnings estimates (10-13% for FY21/22) and rating (from ADD to BUY) on the stock. With normalization of credit cost in key product lines, we expect RoA to bounce back sharply to 1.3%. The in-process capital raise will bolster CET-1 to 17.5%, thus strengthening the balance sheet and positioning the bank well to pursue growth in ensuing quarters. Overall, we believe that Q2 FY21 performance and commentary improves the visibility of 1%+ RoA delivery in FY22 and this should uplift valuation.

Cost control leads PPOP beat

- ✓ RBL Bank's core PPOP came in 10% higher than our estimate and core PPOP margin stood at 2.7%. The beat came despite the bank proactively reversing interest income on non-wholesale advances expected to slip by Q3 FY21. Thus, reported NIM at 4.34% was 50bps lower qoq.
- ✓ The decline in NIM weighed on NII growth (-10% qoq and 7% yoy). There was strong recovery in core fee income (up 52% qoq and stood at 93% of Q2 FY20 level) with revived traction in card fees and processing income. Treasury income was elevated, and stood similar to Q1 FY21 at Rs950mn.
- ✓ Notwithstanding higher business activity levels in non-wholesale products on sequential basis, the absolute opex came-off in Q2 FY21 and exhibited no growth on yoy basis. Cost/income remained below 50%.
- ✓ Advances stood at Rs562bn (-1% qoq and -4% yoy); non-wholesale grew 7% qoq and 23% yoy with its contribution rising to 57%. Cards (portfolio up 10% qoq), LAP (up 5% qoq) and Micro Banking (up 9% qoq) witnessed substantial portfolio expansion.
- ✓ CASA deposits were up 8% qoq and its share improved to 31% (26.5% in Q2 FY20).
- ✓ Provisioning at Rs5.25bn was in-line with expectations. Covid provisions were ramped up by Rs3.1bn to Rs6.64bn (now at 121 bps of advances). PCR was improved by 600 bps qoq to 59.5%.
- ✓ SC order pending slippages marginal at Rs858mn (15 bps of advances). Bank has created contingency provision against them.
- ✓ Overall capital adequacy at 16.50% with Common Equity Tier 1 ratio of 15.12% at the end of Q2FY21.

Exhibit 1: Financial Summary

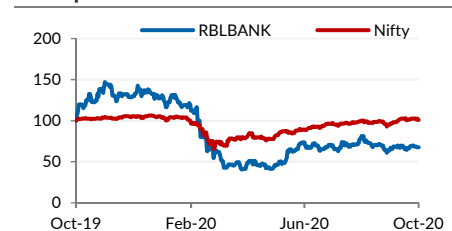
Y/e 31 Mar (Rs mn)	FY19	FY20	FY21E	FY22E
Operating income	39,819	55,399	59,144	70,431
PPOP	19,398	27,516	29,309	34,033
Net profit	8,670	5,057	4,657	14,173
yoy growth (%)	35.6	(41.7)	(7.9)	204.3
EPS (Rs)	20.3	9.9	7.8	23.7
Adj.BVPS (Rs)	168.1	184.7	188.0	209.1
P/E (x)	8.6	17.6	22.5	7.4
P/adj.BV (x)	1.0	0.9	0.9	0.8
ROE (%)	12.2	5.6	4.0	10.7
ROA (%)	1.2	0.6	0.5	1.3

Source: Company, YES Sec - Research

Stock data (as on October 28, 2020)

Nifty	11,730
52 Week h/l (Rs)	391 / 102
Market cap (Rs/USD mn)	89284 / 1209
Outstanding Shares (mn)	509
6m Avg t/o (Rs mn):	5,151
Div yield (%):	0.9
Bloomberg code:	RBK IN
NSE code:	RBLBANK

Stock performance



	1M	3M	1Y
Absolute return	1.0%	-3.6%	-31.6%

Shareholding pattern

Promoter	0.0%
FII+DII	51.3%
Others	48.3%

Δ in earnings estimates

	FY20e	FY21e	FY22e
EPS (New)	9.9	7.8	23.7
EPS (Old)	9.9	8.3	25.5
% change	0.0%	-6.0%	-6.9%

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MANAGEMENT COMMENTARY

Growth

- ✓ Bank will cautiously grow in chosen areas of focus.
- ✓ Wholesale advances will start to grow from Q3 FY21 onwards – focus on better quality (better rated) and granularity.
- ✓ Have been successful in dialing down exposure in BBB and BB & Below rates exposures.
- ✓ Strong momentum in Cards and MFI to continue – the banks ants to be amongst the industry leaders.

NIM

- ✓ Derecognize interest non-wholesale advances which will slip in Q3 FY21 - NIM impact of this was about 50 bps - but for this, the NIM was steady qoq at 4.85%.
- ✓ Will resume a firm NII run-rate of Rs10bn+ from Q4 FY21, as there will be some more interest derecognition in Q3.
- ✓ NIM should revert to Q1 FY21 level in a couple of quarters.

Asset Quality and Credit Cost

- ✓ Slippages during Q2 at Rs1.45bn – would have been higher by Rs0.9bn if SC order was not there – however, the bank has taken NPL equivalent provision on this quantum.
- ✓ PCR level of 60% in now adequate and healthy.
- ✓ Credit cost guidance retained - similar to FY20 level (near 360 bps).
- ✓ Covid impact on wholesale portfolio has been insignificant.

Capital

- ✓ Got RBI approval for Baring PE holding 9.5% stake for Rs10bn – overall equity raise quantum is Rs15.6bn.
- ✓ Baring will have no Board seat or any sought of management control.
- ✓ Including the above, CAR would be 18.7% and CET-1 at 17.4%.

Credit Cards

- ✓ Portfolio under moratorium came down between June and August - June was 22% by value, August was 16% by value and its further reduced to 9.4% by Sept 30.
- ✓ 54% of 9.4% has not paid (5% of CC portfolio) have not paid anything since April and thus represents the vulnerable pool.
- ✓ Currently only 0.4% of portfolio > 90 dpd.
- ✓ Overall credit cost will be capped at 9-10% (2x usual rate) – which is in-line with management's initial forecast.
- ✓ Card spends in September equal to March levels and were higher 5% yoy.
- ✓ Started new business origination in a calibrated manner – credit filters remain conservative.
- ✓ Issued 0.1mn new cards in Sept – will soon reach pre-Covid origination run-rate.
- ✓ Collection efficiency at 94% of pre-covid level – healthy recoveries were realized in w/off pool.
- ✓ Only 1-1.5% new-to-credit customers in the portfolio.

Micro Banking

- ✓ MFI disbursement at 85% of BAU run-rate.
- ✓ Collection efficiency at 93% in Sept - only 7% of customers have not paid any installment since April.
- ✓ Collection has been a challenge in WB, Assam, MH and Punjab.
- ✓ Factoring FLDG, the credit loss on the bank could be maximum 4% of the portfolio.

Business Loan

- ✓ Customer business activity level at 40-60% of pre-Covid times.
- ✓ Collection efficiency at 93% of pre-covid level.
- ✓ Bank has disbursed Rs3.5bn under ECLGS so far.

Exhibit 2: Result Table

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Total Interest Income	20,773	22,350	(7.1)	21,262	(2.3)
Interest expended	(11,452)	(11,937)	(4.1)	(12,575)	(8.9)
Net Interest Income	9,321	10,413	(10.5)	8,687	7.3
Other income	4,562	3,333	36.9	4,415	3.3
Total Income	13,883	13,746	1.0	13,102	6.0
Operating expenses	(6,685)	(6,849)	(2.4)	(6,744)	(0.9)
PPOP	7,198	6,897	4.4	6,358	13.2
Provisions	(5,256)	(5,002)	5.1	(5,333)	(1.4)
PBT	1,942	1,896	2.4	1,025	89.4
Tax	(500)	(483)	3.5	(482)	3.8
PAT	1,442	1,412	2.1	543	165.4

Source: Company, YES Sec - Research

Exhibit 3: Business Data

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Advances	561,620	566,830	(0.9)	584,760	(4.0)
C&IB	178,150	199,060	(10.5)	240,630	(26.0)
CB	62,040	68,370	(9.3)	83,280	(25.5)
Retail	242,070	225,620	7.3	197,920	22.3
o/w LAP	79,790	76,270	4.6	72,950	9.4
o/w Credit Cards	112,860	102,890	9.7	80,030	41.0
o/w BIL	16,730	16,130	3.7	15,410	8.6
o/w Others	21,550	30,330	(28.9)	18,290	17.8
DB&FI	79,350	73,790	7.5	62,930	26.1
o/w Micro-Banking	66,860	61,170	9.3	51,510	29.8
o/w MSME	12,490	12,620	(1.0)	11,420	9.4
Deposits	645,061	617,360	4.5	628,291	2.7
CASA	200,640	185,660	8.1	166,200	20.7
Borrowings	132,558	160,290	(17.3)	139,532	(5.0)
Total Assets	933,465	924,460	1.0	876,777	6.5
RWA	697,990	686,710	1.6	669,760	4.2

Source: Company, YES Sec - Research

Exhibit 4: Key Ratios

(%)	Q2 FY21	Q1 FY21	chg qoq	Q2 FY20	chg yoy
NIM	4.3	4.9	(0.5)	4.4	(0.0)
Yield on Advances	12.3	13.0	(0.7)	12.1	0.2
Cost of Deposits	6.0	6.3	(0.3)	6.9	(0.9)
CASA	31.1	30.1	1.0	26.5	4.7
C/D	87.1	91.8	(4.8)	93.1	(6.0)
Non-interest income	32.9	24.2	8.6	33.7	(0.8)
Cost to Income	48.2	49.8	(1.7)	51.5	(3.3)
Prov./Avg Advances (Ann)	3.7	3.5	0.2	3.7	0.0
RoE	5.2	5.2	(0.0)	2.7	2.5
RoA	0.6	0.6	0.0	0.3	0.4
CAR	16.5	16.4	0.1	12.3	4.2
Gross NPA	3.3	3.5	(0.1)	2.6	0.7
Net NPA	1.4	1.7	(0.3)	1.6	(0.2)

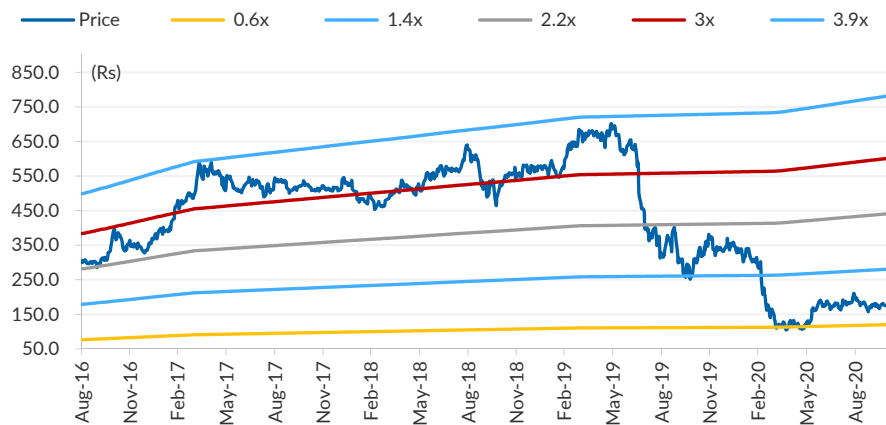
Source: Company, YES Sec - Research

Exhibit 5: Core fee income - break-up

(Rs mn)	Q2 FY21	Q1 FY21	% qoq	Q2 FY20	% yoy
Core Fees	3,620	2,390	51.5	3,880	(6.7)
Distribution + CC	2,100	1,338	56.9	2,328	(9.8)
Proc. Fees	326	167	94.7	466	(30.0)
Gen. Banking	471	382	23.1	349	34.8
Trade/Others	362	191	89.3	349	3.7
FX	362	335	8.2	388	(6.7)

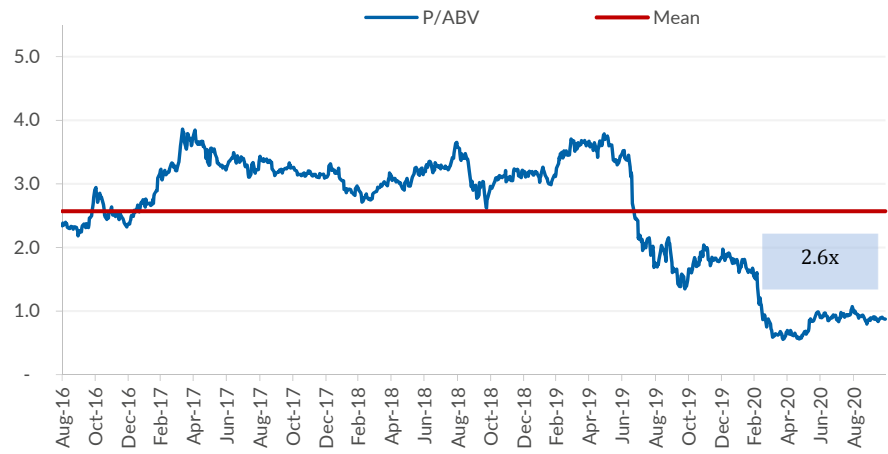
Source: Company, YES Sec - Research

Exhibit 6: 1-year rolling P/ABV band



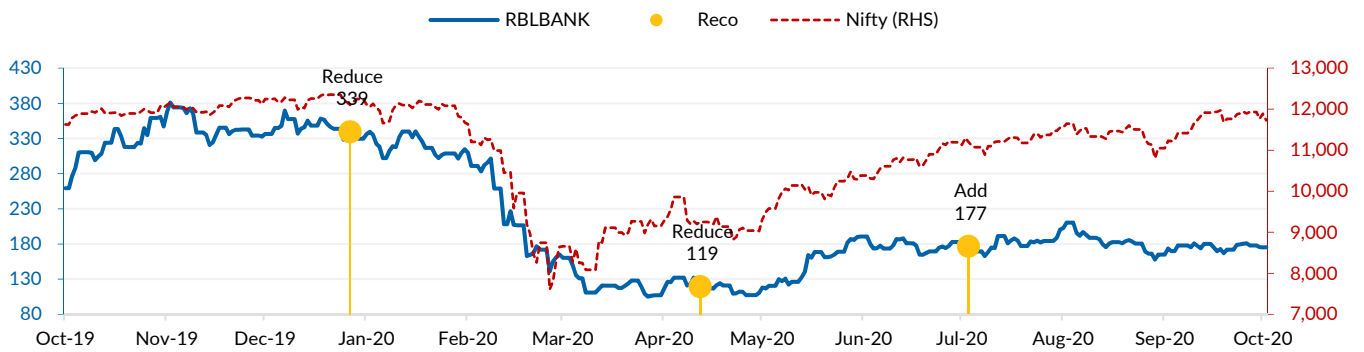
Source: Company, YES Sec - Research

Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec – Research

Recommendation Tracker



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