



## 3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✓	✗
Right Valuation (RV)	✓	✗	✗

+ Positive = Neutral - Negative

## Reco/View

Change

Reco: Buy



CMP: Rs. 237

Price Target: Rs. 295



↑ Upgrade ↔ Maintain ↓ Downgrade

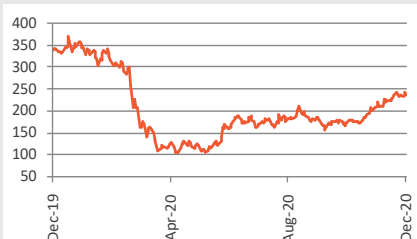
## Company details

Market cap:	Rs. 14,155 cr
52-week high/low:	Rs. 465/101
NSE volume: (No of shares)	316.6 lakh
BSE code:	540065
NSE code:	RBLBANK
Free float: (No of shares)	50.9 cr

## Shareholding (%)

Promoters	0.0
FII	43.9
DII	26.5
Others	29.6

## Price chart



## Price performance

(%)	1m	3m	6m	12m
Absolute	11.5	-5.4	8.9	-47.8
Relative to Sensex	4.9	-7.0	-9.9	-45.3

Sharekhan Research, Bloomberg

## RBL Bank

## Steady fundamentals, reasonable valuations

Banks &amp; Finance

Sharekhan code: RBLBANK

Company Update

## Summary

- ♦ We interacted with RBL Bank's management, which indicated that while the bank was still cautious on credit quality and growth outlook, it has steady fundamentals by healthy provisions cover and adequate capital buffer, which provides it cushion in the medium term.
- ♦ The bank expects slow traction on business loans, but traction on retail loans is better; falling cost of funds is likely to help maintain NIMs at present levels.
- ♦ RBL Bank currently trades at 1.2x/1.1x its FY2022E/FY2023E book value per share, which is reasonable. We have fine-tuned our estimates and have revised our target multiples.
- ♦ We recommend a Buy rating on the stock with a PT of Rs. 295.

We interacted with the management of RBL Bank to get an update on its business and outlook. Management indicated that while the asset-quality picture is still murky, the bank is better placed with stable margins, rationalising costs of funds, stable margins, and improving collections efficiency. Our interactions indicated that while the bank was still cautious on credit outlook, it has held its fundamentals steady by shoring up provisions and has adequate capital buffer, which provides it cushion from medium-term challenges. We expect a potential increase in delinquencies in credit cards/MFI segment and exposure to BBB/BB rated exposure to keep slippage trends elevated over the next few quarters. However, the bank is well provided and does not envisage significant requirement from legacy assets (adequate provisions to cover LGD). The bank expects slow traction on business loans because on-ground things are still slow on this segment. However, it is seeing traction on retail loans (credit cards and affordable housing etc.). On the other hand, yields may be coming off (cautious stance due to incremental lending to higher-rated wholesale book etc.) and rationalisation on cost of funds is likely to help the bank maintain its NIMs at present levels. We believe RBL Bank has been prudent with tightening of credit norms and additional buffer, which is a positive. Given its business mix, we believe asset quality is likely to be the key monitorable for the bank in the medium term. We have fine-tuned our estimates and have revised our target multiples. We recommend a Buy rating on the stock with a price target (PT) of Rs. 295.

## Our Call

RBL Bank currently trades at 1.2x/1.1x its FY2022E/FY2023E book value per share, which is reasonable. We believe while asset-quality performance is yet to stabilise, adequate capitalisation and limited overhang from the legacy stressed corporate book are positives. We believe asset-quality challenges continue and FY2021E is likely to see elevated credit cost and lower growth, but stable profitability. Despite the up move, the stock is still down by ~36% from its highs. We believe risk reward is favourable for long-term investment. We have fine-tuned our estimates and have revised our target multiples. We recommend a Buy rating on the stock with a PT of Rs. 295.

## Key Risks

Upside risks to current stressed corporate exposures and credit card book etc. may affect GNPA's and credit cost estimates for the bank. It may also impede capital raising, which may further delay recovery.

## Valuation

Particulars	FY19	FY20	FY21E	FY22E	FY23E
NII	2540.0	3629.6	4368.5	4863.8	5550.5
PAT	867.4	505.7	568.3	1021.5	1384.0
EPS (Rs.)	20.3	11.6	9.5	17.1	23.2
BVPS	176.5	191.0	188.4	203.3	223.4
ROE (%)	12.2%	5.6%	5.0%	8.4%	10.4%
ROA (%)	1.2%	0.5%	0.5%	0.7%	0.8%
P/E (x)	11.7	20.4	24.9	13.9	10.2
P/BV (x)	1.3	1.2	1.3	1.2	1.1

Source: Company; Sharekhan estimates

Note: We now convert RBL Bank into a stock update; it was earlier a Viewpoint under our coverage.

### Cautious on growth, but high PCR and better-rated corporate book provides cushion

Our interactions indicated that while the bank was still cautious on its credit outlook, it has held its fundamentals steady by shoring up the provisions and has adequate capital buffer, which provides it cushion from medium-term challenges.

The bank has guided for 9%-10% credit cost in the credit card business going forward. New business origination is getting back on track. Traction in CC business is strong, which has improved from ~80,000 per month few months back to 1 Lakh plus on monthly basis. Of this, around 60% is from Bajaj Finance channel and 40% is from others. Expected FY2021E credit cost is 9%-10%, but so far it has only taken standard asset provisions for the same, and some portion has been taken as Covid provision of this book.

Overall, credit cost is guided to be 3.5%-4% for FY2021E. At present, RBL Bank does not have clarity on NPA ending number for FY2021E. Irrespective of the Supreme Court's decision, the bank will be proactive and upfront in providing what is required for stressed loans, which is a long-term positive for book quality.

Normalised rate of credit cost will be around 225 bps. However, we expect the card and retail business to grow. However, growth of wholesale/corporate loans this year is likely to be low, and there is little legacy pressure now remaining on this segment.

Funding cost has been coming down. The bank expects lower cost of funds in H2FY2021 from <6% in September. By March, the bank will see around 30 bps further reduction. There is headroom, since the difference will reduce to ~130 bps (as compared to larger banks), which will come down by FY2021 end. Granularity will improve on the liability side and will help keep cost of funds low.

Going forward, RBL Bank expects loan growth of 8%-9% for FY2021E, with traction mostly in retail (Cards and MFI) and affordable housing segments of retail, which will grow faster than wholesale. The bank is not seeing great signs of demand pickup on the corporate side. Lending to corporates is also more of lower tenure, across banks.

MFI business is looking to be stable, however select pockets in states such as West Bengal, Punjab, Western Maharashtra, and Assam are showing lesser collections (~85% as compared to 95% for rest of the MFI book).

May end CRAR/Tier 1 is at 18%/17% for FY2021E and does not need capital at least for business purposes. The bank has raised capital mainly as a protection against Covid uncertainties. As per the present growth and capital burn rate, the management indicated that the bank would not be in need of additional capital infusion till FY2024E.

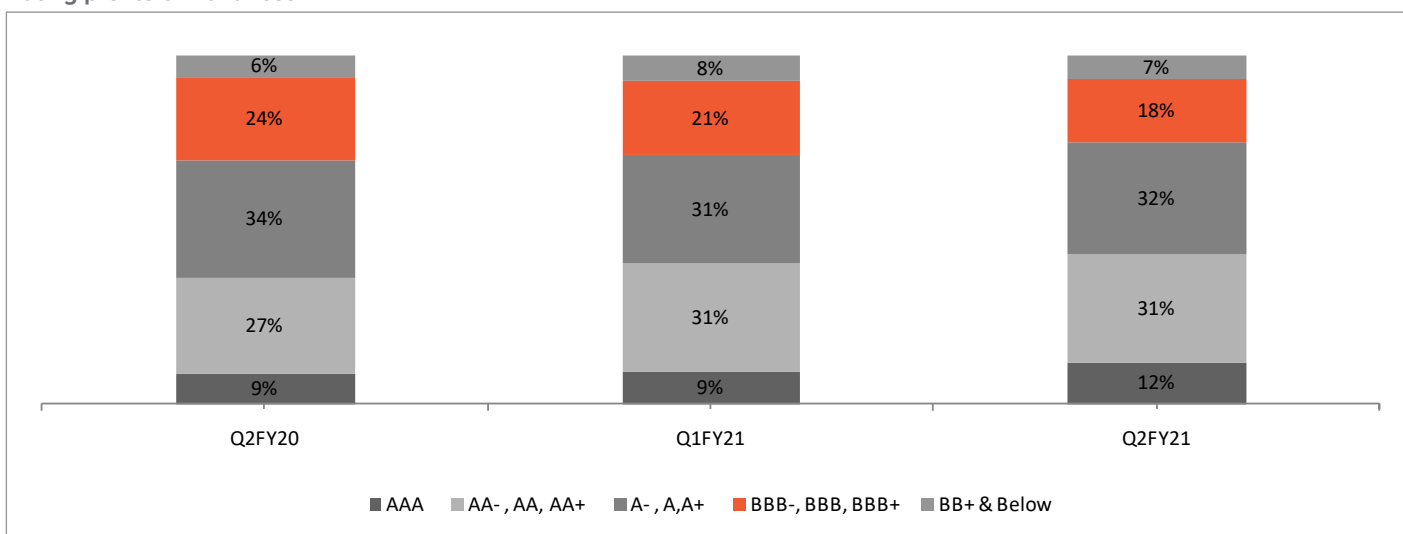
There is little scope for treasury income gains. Fee income may see traction due to cards and spends are coming up. Loan origination will be low due to slow loan growth. Overall fee income will be flat.

### Improved Collection Efficiency; better book quality

Collection efficiency was 93% of pre-Covid levels in September and is improving every month. The bank expects it to reach pre-COVID levels by January. In cards, collection efficiency is at 94% of pre-Covid levels. In the micro banking business, focus continues to be on collections even as the bank has started new disbursements.

Borrowers rated A minus or better are now 75.1% of its rated portfolio and this reflects a consistent improvement over the past several quarters. The bank also had success in reducing exposures in BBB and below-rated portfolio as well.

### Rating profile of Advances

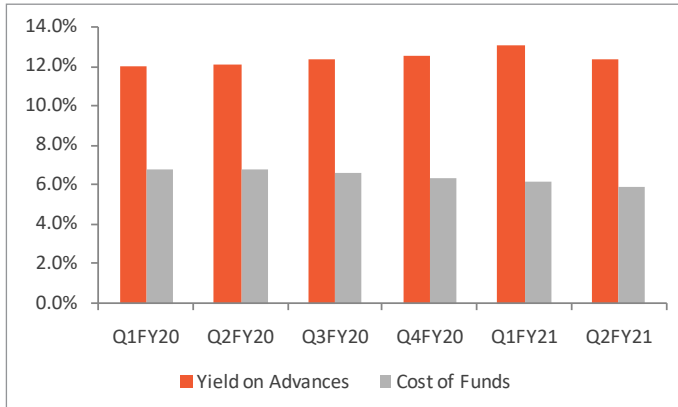


Source: Company, Sharekhan Research

Improving retail focus was seen, even though loans book growth was tepid in Q2FY2021. The bank added 60 new client relationships across product segments of cash management services, digital banking, advances, and liabilities. Recently, the bank has also forged a bancassurance partnership with ICICI Prudential Life Insurance adding to its retail offerings.

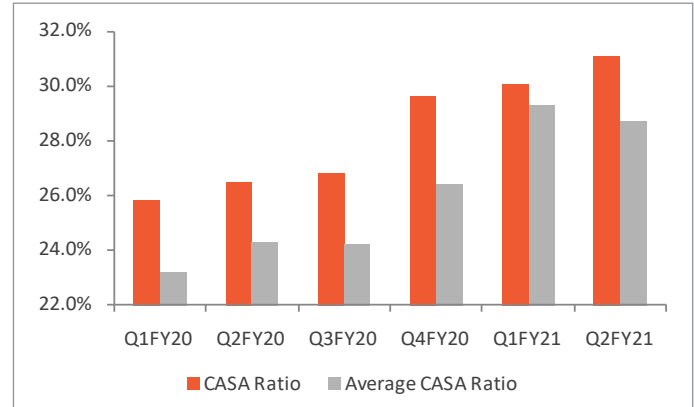
## Financials in charts

### Yields and Cost of Funds



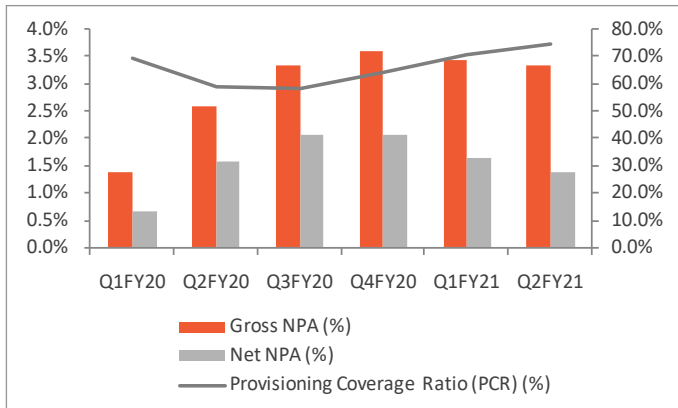
Source: Company, Sharekhan Research

### CASA



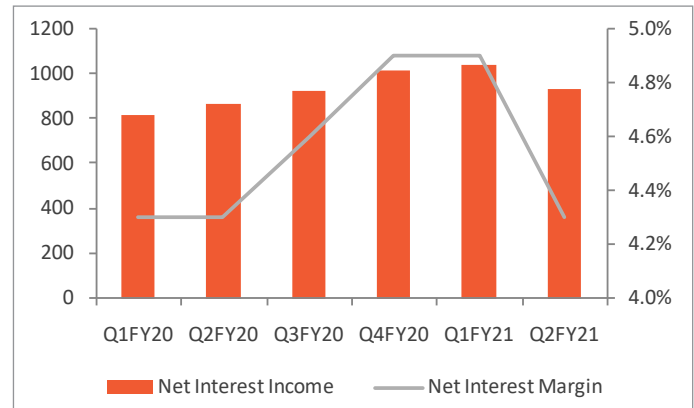
Source: Company, Sharekhan Research

### Asset Quality



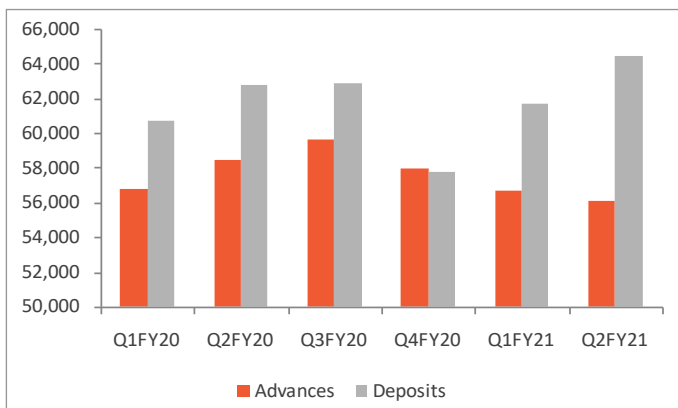
Source: Company, Sharekhan Research

### NII, NIMs



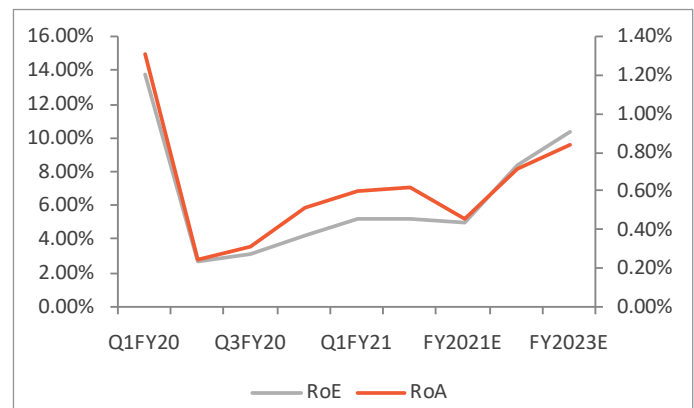
Source: Company, Sharekhan Research

### Business Growth



Source: Company, Sharekhan Research

### Return Ratios



## Outlook and Valuation

### ■ Sector view - Improving asset-quality outlook and growth makes private banks attractive

Commentary from private banks (PBs) has been surprising on the upside with respect to asset quality (restructuring guidance etc). Most PBs have highlighted their collection efficiency has further improved and has been improving or stabilised post the sharp jump in September. Moreover, additional restructuring requests have been low, despite December 2020 deadline to submit restructuring requests, which indicated better asset-quality outlook. We believe the strong improvement has been helped by strong performance on the corporate side, limited job losses so far (particularly to employees of good corporates, where PBs lend); significant de-leveraging of corporate debt in recent years due to which legacy burden is lower; and government relief measures, particularly credit guaranteed lending scheme for SMEs (which has now been extended to March 2021), which have helped improve comfort among PBs. We believe PBs with improved capitalisation and strong asset quality (with high coverage and provisions buffers) are structurally better placed to take-off once the situation normalises.

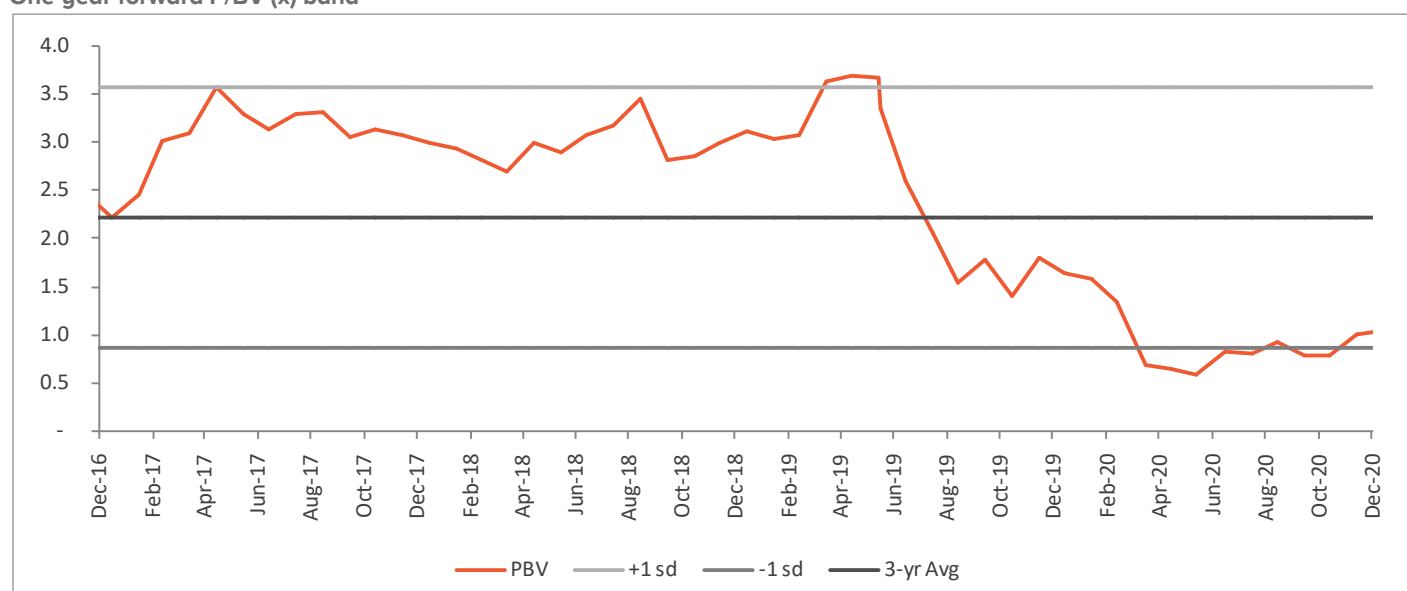
### ■ Company outlook - steady fundamental

Challenges in credit card, MSME, wholesale (corporate accounts), and related provisioning requirement are key overhangs on the bank. The Covid-19 pandemic impacted business growth as well as credit cost of banks, but as things are normalising, the test for RBL Bank will be to maintain its credit cost and asset quality, balancing with margins. Growth outlook is still sluggish and asset-quality outlook will be the key monitorable going forward. Notably, although faster growth in unsecured (PL and CC) business is margin accretive, it can be a potential high-risk category and, hence, will need to be monitored. We believe the outlook has uncertainties for RBL Bank, but its provision buffer and stable margins outlook are in its favour. Moreover, recent capital raising (sufficient capital for ~3 years in normal course of business) helps provide positive support to the balance sheet to address challenges.

### ■ Valuation - Recommend Buy with a PT of Rs. 295

RBL Bank currently trades at 1.2x/1.1x its FY2022E/FY2023E book value per share, which is reasonable. We believe while asset-quality performance is yet to stabilise, adequate capitalisation and limited overhang from the legacy stressed corporate book are positives. We believe asset-quality challenges continue and we believe FY2021E is likely to see elevated credit cost and lower growth, but stable profitability. Despite the up move, the stock is still down by ~36% from its highs and we believe risk reward is favourable for long-term investment. We have fine-tuned our estimates and have revised our target multiples. We recommend a Buy rating on the stock with a PT of Rs. 295.

#### One-year forward P/BV (x) band



Source: Bloomberg, Sharekhan Estimates

#### Peer valuation

Particulars	CMP (Rs)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
RBL Bank	237	1.3	1.2	24.9	13.9	0.5	0.7	7.0	9.9
Federal Bank	67	0.9	0.8	11.6	7.9	0.6	0.8	7.9	10.0
City Union Bank	184	2.4	2.2	29.0	19.4	0.9	1.3	8.3	11.3
Indusind Bank	936	1.7	1.5	14.4	10.5	1.4	1.8	12.0	14.4

Source: Bloomberg, Sharekhan Estimates

## About company

RBL Bank is a private sector bank that offers specialised services under six business verticals namely corporate and institutional banking, commercial banking, branch banking, retail assets, development banking, and financial inclusion, treasury, and financial market operations. The bank currently services over 8.76 million customers through a network of 388 branches, 1,219 business correspondent branches, and 402 ATMs spread across 28 state and UTs.

## Investment theme

RBL Bank has progressed well from a regional bank to a pan-India bank, with increasing bouquet of product and services. In the past few years, the bank has been investing on building business and infrastructure and has now been successfully able to grow its products and services and has transformed into a full services bank. The retail division of RBL Bank is progressing well, thereby presenting cross-sell opportunities as well as better liability mix. We believe diversification of income streams and a strong retail are positive for the sustainability of margins and profitability of the bank. The recent pandemic-related lockdown is likely to impact the banking sector as well as RBL Bank with slower growth and higher credit costs for the medium term. We believe while medium-term uncertainties continue, strong capitalisation, adequate provision buffer, and stable margins outlook will help the bank tide over medium-term uncertainties.

## Key Risks

Upside risks to current stressed corporate exposures and credit card book etc. may affect GNPA's and credit cost estimates for the bank. It may also impede capital raising, which may further delay recovery.

## Additional Data

### Key management personnel

Mr. Vishwvir Ahuja	Managing Director & CEO
Mr. Amrut Palan	Chief Financial officer
Mr. Deepak Kumar	Chief Risk Officer
Mr. Pankaj Sharma	Chief Operations Officer
Mr. Rajeev Ahuja	Executive Director
Mr.R. Gurumurthy	Head,Risk & Governance

Source: Company

### Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	United Kingdom of Great Britain an	5.55
2	JASMINE CAPITAL INVESTMENTS PTE	4.75
3	Kotak Mahindra Asset Management Co	3.09
4	Asian Development Bank	2.82
5	HDFC Asset Management Co Ltd	2.78
6	HDFC Trustee Co Ltd/India	2.78
7	Norges Bank	2.39
8	Ward Ferry Management BVI Ltd/Hong	2.38
9	WF Asian Smaller Cos Fund Ltd/Caym	2.38
10	THELEME MASTER FUND LTD	2.37

Source: Bloomberg

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## Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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