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RBL Bank

Mixed bag performance

Banks & Finance	Sharekhan code: RBLBANK	Result Update

3R MATRIX	+	=	-
Right Sector (RS)	✓		
Right Quality (RQ)		✓	
Right Valuation (RV)	✓		

\+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	Positive	↔	Positive
RQ	Neutral	↔	Neutral
RV	Positive	↔	Positive

Reco/View	Change
Reco: **Buy**	↔
CMP: **Rs. 215**	
Price Target: **Rs. 240**	↓

↑ Upgrade ↔ Maintain ↓ Downgrade

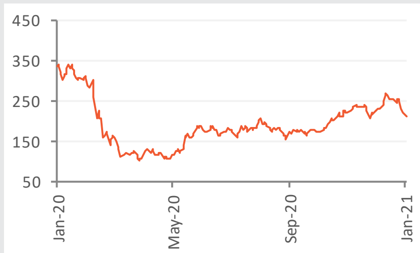
Company details

Market cap:	Rs. 12,852 cr
52-week high/low:	Rs. 347/101
NSE volume: (No of shares)	202.3 lakh
BSE code:	540065
NSE code:	RBLBANK
Free float: (No of shares)	59.8 cr

Shareholding (%)

Promoters	0.0
FII	49.8
DII	21.9
Others	29.6

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-7.6	23.1	21.8	-36.7
Relative to Sensex	-6.1	5.1	-1.3	-51.1

Sharekhan Research, Bloomberg

Summary

- RBL Bank posted mixed results, with operating performance ahead of expectations, helped by other income and sequentially lower provisions; but tepid advances growth and sequential decline in NIM were dampeners.
- The bank's proforma GNPA ratio/NNPA ratio would be 4.57% and 2.52%, respectively, which was significantly higher by 273/181 bps compared to reported numbers.
- Improving collection efficiency in rest of the business along with BB and below book being well secured etc. are silver linings.
- RBL Bank trades at 1.06x/0.97x its FY2022E/FY2023E BVPS; We have fine tuned our estimates and maintain a Buy rating on the stock with a revised PT of Rs. 240.

RBL Bank posted mixed results. Operating performance was ahead of expectations, helped by other income and sequentially lower provisions. However, tepid advances growth and sequential decline in NIMs were dampeners. Overall business outlook continues to be beset with uncertainties. NII came at Rs. 908 crore, down 2% y-o-y and 3% q-o-q and was in-line with expectations. PPOP at Rs. 805 crore was up 12% y-o-y and q-o-q and came above expectations. PAT stood at Rs. 147 crore, up 110% y-o-y and up 2% q-o-q, also above expectations. Core fee income came above pre-COVID levels at Rs. 497 crore, up 37% q-o-q, helped by retail traction, which constituted 86% of the bank's core fee income. Reported GNPA/NNPA for Q3FY2021 improved to 1.84%/0.71% from 3.34%/1.38% in Q2FY2021. The bank's proforma GNPA ratio/NNPA ratio would be 4.57% and 2.52%, respectively, which was significantly higher by 273/181 bps compared to reported numbers. Net interest margin (NIM) stood at 4.19% (down 15 bps from 4.34% q-o-q), subdued due to reversal of interest income on proforma slippages. The bank took provisions of Rs. 609.8 crore in Q3FY2021, which continues to be elevated. However, the bank also dipped into its COVID-19 provision by ~Rs. 300 crore, which leaves it with thinner cushion. Continued high provision is a concern, especially given the mix of RBL Bank, which has significant unsecured loans. BB exposure was at 6.5% of the book, compared to 6.9% in Q2FY2021, which is an improvement. However, management indicated elevated credit costs for medium term mainly from segments such as credit cards and MFI, which are an overhang. We believe a clearer picture on asset quality and recovery will emerge by Q2FY2022. The bank had indicated its cautious view on segments such as credit cards and MSME and has accordingly taken steps. However, the depleting provision buffer, given its business mix, asset quality weakness (in Cards, MFI etc) are concerns. Improving collection efficiency in rest of the business along with BB and below book being well secured etc. are silver linings. We have fine tuned our estimates. We maintain our Buy rating on the stock with a revised PT of Rs. 240.

Key positives

- PCR further improved to 86.4%; PCR including provisioning on proforma slippages strong at 70.7%.
- Core fee income above pre-COVID levels grew by 37% q-o-q.

Key negatives

- Credit cost (including COVID-related provisions) rose to 112 bps compared to 94 bps in Q2FY2021 and 109 bps in Q3FY2020.

Our Call

RBL Bank currently trades at 1.06x/0.97x 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 cast a pall of uncertainty for the near term. We have fine tuned our estimates and have revised our target multiples. We maintain a Buy rating on the stock with a PT of Rs. 240.

Key risk

Upside risks to current stressed corporate exposures and credit card book etc. may affect GNPAs and credit cost estimates for the bank.

Valuation Rs cr

Particulars	FY19	FY20	FY21E	FY22E	FY23E
NII	2540.0	3629.6	4368.5	4863.8	5550.5
PAT	867.4	505.7	568.3	969.7	1324.4
EPS (Rs.)	20.3	11.8	9.5	16.2	22.2
BVPS	176.5	191.0	188.3	202.3	221.6
ROE (%)	12.2%	5.6%	5.1%	8.0%	10.0%
ROA (%)	1.2%	0.5%	0.5%	0.7%	0.8%
P/E (x)	10.6	18.2	22.6	13.3	9.7
P/BV (x)	1.22	1.13	1.14	1.06	0.97

Source: Company; Sharekhan estimates

RBL Bank Q3FY2021 concall highlights

- **Business Traction:** Retail and MSME were most impacted by the pandemic. New business was deliberately slowed down. Wholesale book (WB) and credit card portfolio are resilient in terms of traction. In WB, the bank is satisfied on present quality and is now looking to return to growth
- **Strong liquidity:** 164% LCR and liquidity is strong, cost of deposits is down 100 bps y-o-y; CASA has also improved.
- **Retail and WB:** Advances to WB were flat on a y-o-y basis. The split between retail and wholesale is 58:42.
- **Income Reversals:** NII and OI were impacted due to interest income reversals. Hence, NIMs were subdued. Next few quarters, NIMs should revert to normal levels.
- **Asset Quality:** Reported slippages were NIL. On proforma basis, slippages were Rs. 1,470 crore, on which it has taken full provision. Rs. 1,300 crore of the above are in the retail book. Final restructuring book is likely to be within 1.5% by Q4FY2021.
- **Branches:** Will add 70-80 new branches in CY2021.
- **Restructured** 4% of loans over the past two quarters.
- **MFI:** Will revert to annualised credit cost of 5.0%-5.5% p.a. after the next two quarters. Collection efficiency is stable at 92%, new disbursement is cautious. Portfolio is now 2.4% (from 4% earlier) to troubled geographies.
- **High GNPA expected from credit card and MFI:** The bank expects FY2021 year-end expected GNPA will be 5-5.5% in credit card and MFI.
- **Growth:** Credit card portfolio growth is back to pre-COVID levels. MSME has still time to recover, and new business is being done with caution.
- **Retail segment seeing stress:** The retail segment is seeing higher stress, but the bank sees the stress peaking by Q1.
- **Affordable housing:** Focus on growing on secured annuity type business. Affordable housing will add 75 new branches and introduce branch footprint in rural areas with home loans. Overall, management wants to improve earnings profile of the business model.
- **BB and below book:** BB and below book have gone down during the quarter. The bank had done write-off of standard pool of assets.
- **Collection efficiency:** Customer intention is good and is paying up and collection efficiency is holding up.
- **Cards:** The business has been built with data from partners. Around 60% of customers come from Bajaj Finance.
- **Q4 may see higher credit costs:** The bank indicated it expects higher credit costs and write-off from cards and MFI in Q4. On calculated basis, the coverage will be 50%-55% at FY2021 end. Credit card generally has high PCR; hence, PCR will rise.
- **Wholesale banking:** RBL Bank has now a full product suite. The bank wants to have a multiproduct product relationship with customers. So, it is not just doing balance sheet business, but also other services. The strategy is currently cautious on lending.
- **Proforma book breakup:** As of December end, the proforma GNPA stood at 5.7% cards, 2.6% for MFI, and 4.5% for other business, while the wholesale bank was 4%. Total was 4.5%.

- **GNPA Outlook:** GNPA will be in similar range in FY2021E for the bank as a whole (around 4.6%). MFI and Cards are expected to see more slippages in Q4 FY2021E.
- **Outstanding Contingent provisions:** During the quarter, RBL Bank has taken out Rs. 300 crore. So, around 50+% of the provisions have been utilised and remaining are around Rs. 350 crore.
- **Outlook:** NII is likely to be muted in the next quarter. NIM will revert to normal levels around Q2.
- **Fee income impact:** The entire impact on fee and interest income on reversals has been taken in the interest income line.
- **FY2022E credit growth outlook:** Next 3-5 months are crucial and will be watchful on business growth. Post that, it will articulate the growth strategy.
- **Provision Outlook:** Provisions are going to be elevated for the next 2-3 quarters. Credit cards and MFI etc. provisions and retail GNPA will be flowing in Q1 as well. Credit cost for FY2022E did not share guidance. But Q4 numbers may be similar to Q3.

Results Rs cr

Particulars	Q3FY21	Q3FY20	YoY %	Q2FY21	QoQ %
Interest earned	1980	2157	-8.2	2077.3	-4.7
Interest Expended	1072	1235	-13.2	1145.2	-6.4
Net interest income	**908**	**923**	**-1.6**	**932**	**-2.6**
Non-interest income	579.9	487.0	19.1	456.2	27.1
Net total income	1488.0	1409.6	5.6	1388.3	7.2
Operating expenses	**683.2**	**692.9**	**-1.4**	**668.5**	**2.2**
-Employee expenses	210.7	188.0	12.1	215.3	-2.1
-Other operating expenses	472.5	504.9	-6.4	453.2	4.3
Pre-provisioning profit	**804.8**	**716.7**	**12.3**	**719.8**	**11.8**
Provisions	609.8	622.8	-2.1	525.6	16.0
Profit before tax	**195.1**	**93.9**	**14.4**	**194.2**	**-4.2**
Tax	48.0	23.9	100.5	50.0	-4.1
Profit after tax	**147.1**	**69.9**	**110.2**	**144.2**	**2.0**

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – Credit growth yet to pick up, private banks placed better

System level credit offtake, which is still subdued, is now improving, with credit growth of over 6% in the latest fortnight. On the other hand, deposits rose by ~12%, which indicate relatively healthy economic scenario. Moreover, the accommodative stance of the Reserve Bank of India (RBI), resulting in surplus liquidity, provides succour in terms of easy availability of funds and lower cost of funds for banks and financials. The end of the loan moratorium is a relief. Going forward, collection efficiency is likely to be a function of book quality, client profile, as well as economic pick-up. At present, we believe that the banking sector is likely to see increased risk-off behaviour, with tactical market share gains for well-placed players. We believe private banks, with improved capitalisation, and strong asset quality (with high coverage and provisions buffers) are structurally better placed to take-off once the situation normalises.

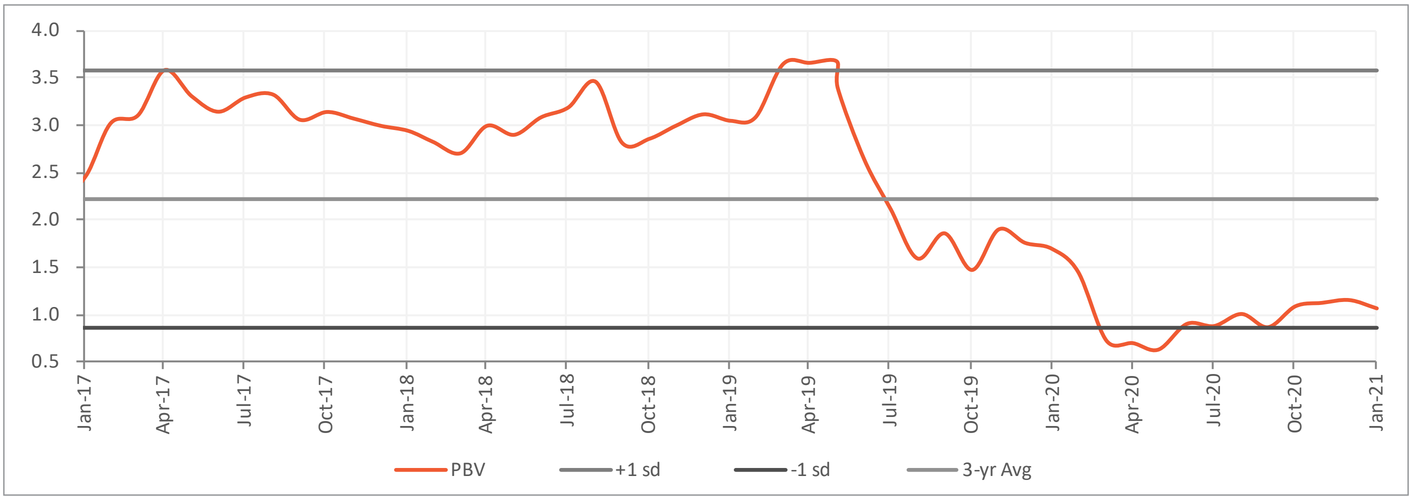
■ Company Outlook – Steady fundamentals, but challenges persist

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 stable margin outlook and recent capital raising (sufficient capital for ~3 years in the normal course of business) help provide positive support to the balance sheet to address the challenges.

■ Valuation – Recommend Buy with a PT of Rs. 240

RBL Bank currently trades at 1.06x/0.97x 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 cast a pall of uncertainty for the near term. We have fine tuned our estimates and have revised our target multiples. We maintain Buy on the stock with a PT of Rs. 240.

One-year forward P/BV (x) band



Source: Sharekhan Research

Peer valuation

Particulars	CMP (Rs)	P/BV (x)		P/E (x)		RoA (%)		RoE (%)	
		FY21E	FY22E	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
RBL Bank	215	1.1	1.1	22.6	13.3	0.5	0.7	5.1	8.0
Federal Bank	72	0.9	0.8	9.4	7.3	0.8	1.0	9.6	11.5
City Union Bank	168	2.1	1.9	22.0	15.8	1.1	1.3	10.1	12.7
Indusind Bank	803	1.5	1.4	20.0	11.6	0.9	1.5	7.8	12.3

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 9.08 million customers through a network of 403 branches, 1,344 business correspondent branches (of which 259 banking outlets), and 412 ATMs spread across 28 Indian states and Union Territories.

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, 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 GNPAs and credit cost estimates for the bank.

Additional Data

Key management personnel

Mr. Vishwavir Ahuja	Managing Director & CEO
Mr. Amrut Palan	Chief Financial officer
Mr. Deepak Kumar	Chief Risk Officer
Mr. Pankaj Sharma	Chief Operations Officer
Mr. Neeta Mukerjee	Chief Credit Officer
Mr.Sankarson Banerjee	Chief Information Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	United Kingdom of Great Britain an	4.7
2	JASMINE CAPITAL INVESTMENTS PTE	3.9
3	Kotak Mahindra Asset Management Co	2.6
4	Government Pension Fund	2.4
5	Asian Development Bank	2.4
6	HDFC Trustee Co Ltd/India	2.4
7	HDFC Asset Management Co Ltd	2.4
8	Credit Suisse Singapore	2.3
9	Norges Bank	2.0
10	Ward Ferry Management BVI Ltd	2.0

Source: Bloomberg

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 detoriating 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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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

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