

Earnings to Normalize by FY23E; Valuations Undemanding

- RBL's Q3 earnings were impacted by high provisions led by elevated write-offs. Other income benefitted from healthy recoveries from written-off accounts, aiding core PPOP metrics which stood at 3.3%. NIM were stable QoQ at 4.2% after the impact of high interest reversal and compound interest waiver.
- Pro-forma slippages at ~10.2% for 4QFY21 and 5.4% for FY21 were on expected lines, with bulk of these (80%) coming from retail segment. The credit card book contributed ~40% of slippages during the year, with CC/MFI slippages for the fiscal at 12%/6% respectively.** Pro forma PCR increased to 52% (from 48%), and should inch upwards to 60% by end of FY22 as per management. The bank has utilized most of COVID buffers (Rs3bn as of Dec-20) during the quarter. Pro forma GNPA's declined by 23 bps QoQ, benefitting from good recoveries and elevated write-offs.
- Sequential loan growth of 4% was supported by 3-4% growth in the wholesale book as well. With significant downsizing of the wholesale book over the last few quarters, we anticipate limited stress hereon. ECLGS disbursements stood at Rs12bn or 2% of advances, with restructured book at 1.4% of loans.
- The quarter also saw healthy traction in retail liabilities with CASA growth at 36%/11% YoY/QoQ and reduction in borrowings, resulting in ~30 bps sequential decline in CoF. CoF could further improve by ~50 bps during FY22 as per management. **This, along with higher CD ratio (at 80% currently) and lower interest reversals will be positive for NIM, which should be ~4.75% in FY22 as per guidance.**
- We factor in slippages of 4% for FY22E against 5.4% in FY21. Increased portfolio resilience & better preparedness should reduce retail slippages in FY22 despite impact of ongoing lockdowns. Credit costs will however remain at 280 bps as PCR increases.
- Factoring in better operating metrics (NIM and fee growth), earnings have been upgraded by 11%/3% for FY22E/23E. **We value the bank at 1.1x FY23E ABV, maintaining our BUY rating with an TP of Rs270. Despite near term challenges on asset quality front, we derive comfort from the bank's improving growth prospects and superior digital capabilities in mid-sized banking space. Valuations remain undemanding, with the stock trading at 0.7x FY23E ABV.**

Q4FY21 Result (Rs Mn)

Particulars	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)
Net interest income	9,060	10,210	(11.3)	9,082	(0.2)
Other income	6,884	5,005	37.5	5,799	18.7
Total Net Income	15,945	15,215	4.8	14,880	7.2
Operating expenses	7,179	7,567	(5.1)	6,832	5.1
Pre-provision profits	8,765	7,648	14.6	8,048	8.9
Provisions	7,663	6,141	24.8	6,098	25.7
Tax expense	349	364	(4.0)	480	(27.2)
Reported Net Profit	753	1,144	(34.1)	1,471	(48.8)
			(bps)		(bps)
Advances Growth (YoY%)	1.0	6.8	(580)	(5.4)	639
NIM (%)	4.2	4.9	(73)	4.2	1
RoA (%)	0.3	0.5	(20)	0.6	(30)
RoE (%)	0.0	4.3	(428)	4.8	(479)
Gross NPA (%)	4.3	3.6	72	1.8	250

CMP	Rs 182
Target / Upside	Rs 270 / 49%
NIFTY	14,497

Scrip Details

Equity / FV	Rs 5,980mn / Rs 10
Market Cap	Rs 217bn
	USD 3bn
52-week High/Low	Rs 274/ 106
Avg. Volume (no)	16,004,900
Bloom Code	RBK IN

Price Performance	1M	3M	12M
Absolute (%)	(12)	(28)	48
Rel to NIFTY (%)	(10)	(23)	(5)

Shareholding Pattern

	Sep'20	Dec'20	Mar'21
Promoters	0.0	0.0	0.0
MF/Banks/FIs	22.0	24.7	25.5
FII's	27.8	35.2	31.9
Public / Others	50.3	40.2	42.7

Valuation (x)

	FY21E	FY22E	FY23E
P/E	42.8	9.0	6.4
P/ABV	1.9	0.8	0.7
ROAA	0.5	1.2	1.5
ROAE	4.4	9.1	11.5

Estimates (Rs mn)

	FY21E	FY22E	FY23E
NII	37,875	45,133	51,103
PPOP	30,908	34,588	39,165
PAT	5,078	12,048	16,930
Adj BV	95.5	214.3	244.3

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Risks to our View: Any tails risks from a large ECLGS portfolio, lagged impact of COVID related stress, inability to grow its book meaningfully.

Exhibit 1: Actual v/s estimates

(Rs mn)	Actual	Estimated	% Variance	Comments
NII	9,060	9,972	(9.1)	
Operating Profit	8,765	8,461	3.6	
PAT	753	1,524	(50.6)	Higher provisions impact PAT

Source: Company, DART

Exhibit 2: Change in estimates

Particulars	Previous		Revised		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Net Operating Revenue	64,988	77,140	67,135	77,910	3.3	1.0
Pre Provision Profits	32,239	38,158	34,588	39,165	7.3	2.6
PAT	10,845	16,480	12,048	16,930	11.1	2.7

Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q4 FY21	Q4 FY20	% yoy / bps	Q3 FY21	% qoq / bps	FY21	FY20	% yoy / bps
Interest Inc. / Oper. Revenue	19,224	22,082	(12.9)	19,799	(2.9)	82,145	85,144	(3.5)
Interest Expenses	10,164	11,873	(14.4)	10,717	(5.2)	44,270	48,847	(9.4)
Net Interest Income	9,060	10,210	(11.3)	9,082	(0.2)	37,876	36,296	4.4
NII to Net Operative Income	56.8	67.1	(1,028)	61.0	(421)	64.8	65.5	(72)
NIM (%)	4.2	4.9	(73)	4.2	1	4.4	4.55	(15)
Adjusted NII	8,951	10,156	(11.9)	8,986	(0.4)	37,876	35,862	5.6
Commission, exchange and brokerage	6,076	4,277	42.1	4,622	31.5	16,012	15,740	1.7
Exchange transactions	528	423	24.9	325	62.7	1,545	1,690	(8.6)
Sale of investments	280	305	(8.5)	812	(65.6)	2,977	1,673	78.0
Sale of land, buildings and other assets	-	-	-	-	-	-	-	-
Other Income - Total	6,884	5,005	37.5	5,799	18.7	20,578	19,102	7.7
Other Income to Net Operative Income	43.2	32.9	1,028	39.0	421	35.2	34.5	72
Net Operating Revenue	15,945	15,215	4.8	14,880	7.2	58,454	55,399	5.5
Employee Expenses	2,070	1,999	3.6	2,107	(1.8)	8,454	7,684	10.0
Empl. Cost/Oper. Exps.	13.0	13.1	(15)	14.2	(118)	14.5	13.9	59
Other Opex	5,110	5,568	(8.2)	4,725	8.1	19,092	20,198	(5.5)
Other Opex/ Assets	0.5	0.7	(12)	0.5	3	2.0	2.4	(37)
Total Opex	7,179	7,567	(5.1)	6,832	5.1	27,546	27,883	(1.2)
Cost to Income Ratio (%)	45.0	49.7	(470)	45.9	(89)	47.1	50.3	(321)
Pre Provision Profits	8,765	7,648	14.6	8,048	8.9	30,908	27,516	12.3
Provisions & Contingencies - Total	7,663	6,141	24.8	6,098	25.7	24,017	19,989	20.2
NPA Provisions as % Operating Income	87.4	80.3	713	75.8	1,165	77.7	72.6	506
Profit Before Tax	1,103	1,508	(26.9)	1,951	(43.5)	6,891	7,528	(8.5)
Tax	349	364	(4.0)	480	(27.2)	1,813	2,471	(26.6)
Effective Tax Rate (%)	31.7	24.1	754	24.6	707.9	26.3	32.8	(652)
Reported Profits	753	1,144	(34.1)	1,471	(48.8)	5,078	5,057	0.4

Source: DART, Company

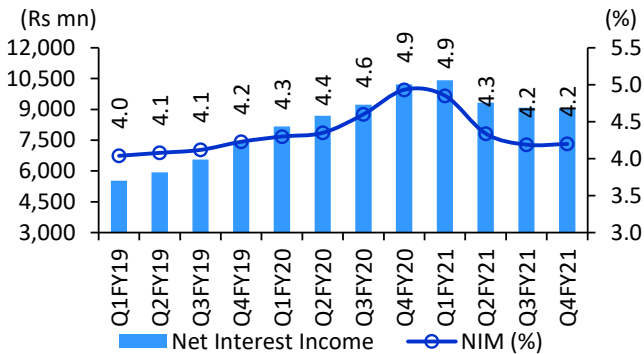
Asset Quality (Rs mn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	QoQ % / bps	YoY % / bps
Gross NPA	20,105	21,365	19,921	19,117	10,502	26,015	147.7	21.8
Gross NPA Ratio (%)	3.33	3.62	3.45	3.34	1.84	4.34	250	72
PCR - Calculated (%)	38.5	44.3	53.2	59.4	61.7	52.3	(939)	795
PCR - Inc. Tech w/o (%)	-	64.04	70.46	74.75	68.77	72.19	342	815
Net Advances	5,97,300	5,80,180	5,65,261	5,62,152	5,66,845	5,85,542	3.3	0.9
Net NPA	12,364	11,894	9,327	7,758	4,025	12,414	208.4	4.4
Net NPAs Ratio (%)	2.07	2.05	1.65	1.38	0.71	2.12	141	7

Source: DART, Company

Balance Sheet Analysis (Rs mn)	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	QoQ % / bps	YoY % / bps
Net Worth	1,05,470	1,05,830	1,07,252	1,08,725	1,25,840	1,26,630	0.6	19.7
Tier 1 (%)	15.0	15.3	15.2	15.1	17.1	16.6	(3)	9
Total CAR (%)	15.7	16.5	16.4	16.1	17.3	17.5	1	6
RWA - Total	6,81,580	6,73,260	6,86,710	6,97,990	7,18,180	7,39,480	3.0	9.8
Advances - Total	5,96,350	5,80,191	5,66,830	5,61,621	5,64,440	5,86,230	3.9	1.0
Investments	1,91,000	1,81,497	1,98,840	2,12,769	2,49,390	2,32,300	(6.9)	28.0
Total Assets	9,14,580	8,89,778	9,24,450	9,33,465	9,64,380	10,06,510	4.4	13.1
RoA (%)	0.32	0.52	0.60	0.62	0.62	0.32	(48)	(38)
Deposits	6,29,070	5,78,122	6,17,360	6,45,061	6,71,840	7,31,210	8.8	26.5
CASA Deposits	1,68,591	1,71,124	1,85,825	2,00,614	2,08,670	2,32,640	11.5	35.9
CASA Ratio (%)	26.8	29.6	30.1	31.1	31.1	31.8	2	7

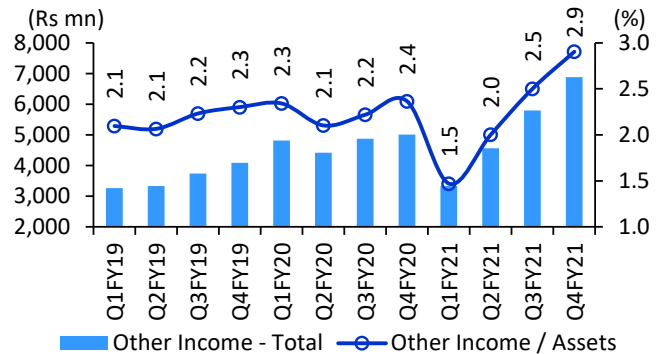
Source: DART, Company

Exhibit 3: NIM impacted by surplus liquidity and high interest reversals/compound waiver impact



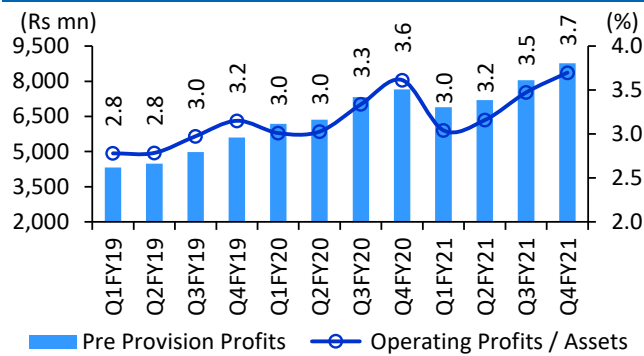
Source: Company, DART

Exhibit 4: Higher recoveries from WO book aid other income



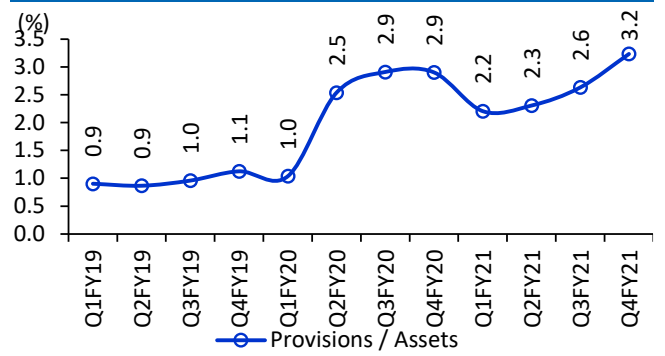
Source: Company, DART

Exhibit 5: PPOP profile continues to remain healthy



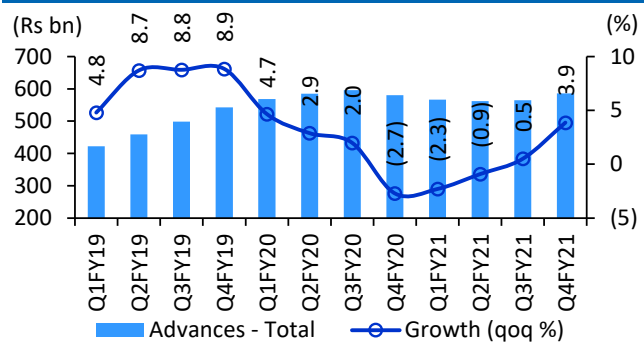
Source: Company, DART

Exhibit 6: Elevated provisions impact profits during the quarter



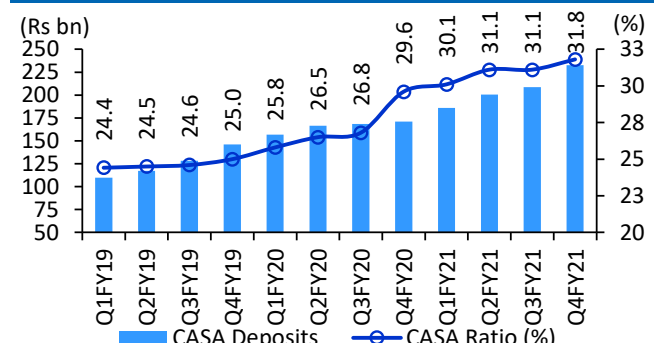
Source: Company, DART

Exhibit 7: Loan growth back as downsizing of corp book is largely done with



Source: Company, DART

Exhibit 8: Healthy traction in retail liabilities



Source: Company, DART

Profit and Loss Account (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Interest Income	85,144	82,145	91,880	103,992
Interest expenses	48,847	44,270	46,748	52,890
Net interest income	36,296	37,875	45,133	51,103
Other incomes	19,102	20,578	22,003	26,807
Total expenses	27,883	27,546	32,548	38,745
- Employee cost	7,684	8,454	9,637	10,793
- Other	20,198	19,092	22,911	27,951
Pre provisioning profit	27,516	30,908	34,588	39,165
Provisions	19,989	24,017	18,350	16,349
Profit before taxes	7,528	6,891	16,237	22,816
Tax provision	2,471	1,813	4,189	5,887
Profit after tax	5,057	5,078	12,048	16,930
Adjusted profit	5,057	5,078	12,048	16,930

Balance Sheet (Rs Mn)

Particulars	FY20A	FY21E	FY22E	FY23E
Sources of Funds				
Equity Capital	5,087	5,980	5,980	5,980
Reserves & Surplus	100,742	120,646	132,694	149,623
Minority Interest	0	0	0	0
Net worth	105,829	126,626	138,674	155,603
Borrowings	170,067	112,259	108,615	101,920
- Deposits	578,122	731,213	796,512	917,284
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	35,759	36,409	42,718	49,045
Total Liabilities	889,778	1,006,506	1,086,519	1,223,853
Application of Funds				
Cash and balances with RBI	88,572	134,242	110,340	96,114
Investments	181,497	232,304	251,204	279,345
Advances	580,190	586,225	668,297	788,590
Fixed assets	4,698	4,665	5,155	5,704
Other current assets, loans and advances	34,820	49,070	51,523	54,100
Total Assets	889,778	1,006,506	1,086,519	1,223,853

E – Estimates

Important Ratios

Particulars	FY20A	FY21E	FY22E	FY23E
(A) Margins (%)				
Yield on advances	12.3	11.2	11.5	11.5
Yields on interest earning assets	10.5	9.1	9.3	9.5
Yield on investments	6.8	7.8	6.6	6.7
Costs of funds	6.7	5.6	5.3	5.5
Cost of deposits	6.3	6.9	5.6	5.3
NIMs	4.5	4.2	4.6	4.7
(B) Asset quality and capital ratios (%)				
GNPA	3.6	4.3	3.8	3.3
NNPA	2.1	2.1	1.6	1.2
PCR	44.3	52.3	60.0	65.0
Slippages	6.2	5.4	4.0	3.0
NNPA to NW	11.2	9.8	7.6	6.1
CASA	29.7	31.9	32.0	33.0
CAR	16.4	17.5	15.8	15.8
Tier 1	15.3	16.6	15.1	15.1
Credit - Deposit	100.4	80.2	83.9	86.0
(C) Dupont as a percentage of average assets				
Interest income	10.1	8.7	8.8	9.0
Interest expenses	5.8	4.7	4.5	4.6
Net interest income	4.3	4.0	4.3	4.4
Non interest Income	2.3	2.2	2.1	2.3
Total expenses	3.3	2.9	3.1	3.4
- cost to income	50.3	47.1	48.5	49.7
Provisions	2.4	2.5	1.8	1.4
Tax	0.3	0.2	0.4	0.5
RoA	0.6	0.5	1.2	1.5
Leverage	8.4	7.9	7.8	7.9
RoE	5.6	4.4	9.1	11.5
RoRwa	0.8	0.7	1.3	1.6
(D) Measures of Investments				
EPS - adjusted	9.9	4.2	20.1	28.3
BV	208.0	105.9	231.9	260.2
ABV	184.6	95.5	214.3	244.3
DPS	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	42.9	4.4	19.2	13.2
PPoP	41.8	12.3	11.9	13.2
Adj PAT	(41.7)	0.4	137.3	40.5
Advances	6.8	1.0	14.0	18.0
Total borrowings	43.7	(34.0)	(3.2)	(6.2)
Total assets	10.7	13.1	7.9	12.6
(F) Valuation Ratios				
Market Cap (Rs. mn)	217,380	217,380	217,380	217,380
CMP (Rs.)	182	182	182	182
P/E (x)	18.3	42.8	9.0	6.4
P/BV (x)	0.9	1.7	0.8	0.7
P/ABV (x)	1.0	1.9	0.8	0.7
Div Yield (%)	0.0	0.0	0.0	0.0

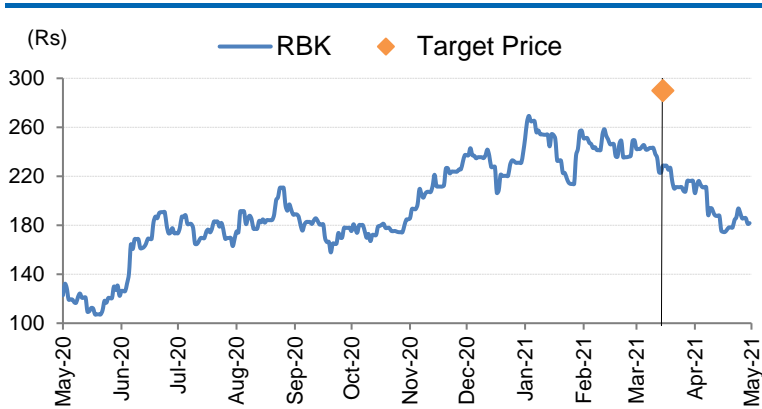
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Mar-21	Buy	290	229

*Price as on recommendation date

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