

RBL Bank

Refer to important disclosures at the end of this report

Stability and sustainability to be key focus areas; Risk-reward looks favorable

We met RBL Bank's new MD and CEO, Mr. Subramaniakumar, to understand his initial thoughts on the bank's transformation and sustainability plan. Following are the KTAs:

- Growth to be more calibrated, diversified and sustainable:** RBL Bank is expected to adopt a more calibrated-growth approach in FY23 and beyond, unlike in the past. The bank expects ~15% (+/-10%) growth in FY23 on a low base, but estimates sustainable growth of 20-25% thereafter. The focus, hereon, will be on delivering diversified & granular growth with higher share of secured assets. That said, the bank remains determined to re-accelerate growth in the cards business, while MFI book deceleration is largely behind. To de-risk the card portfolio being highly dependent on BAF (76% of CIF), the bank is entering into multiple co-branding/sourcing partnerships. On the secured retail front, focus will be more on mortgages/vehicle loans, while the bank would also build a healthy SME portfolio to improve the asset-portfolio tenure and support CASA mobilization.
- Stalling attrition risk to be a key priority, initially:** Although the bank lost Harjeet Toor (before the new MD came on board), the new MD's focus post joining has been on interacting with employees at all levels and communicating his vision for the bank which is weaved around the current management structure. As the new MD has no lineage in private banks, he is keen on working with the existing team and would look at internal elevation or external hiring mainly to plug any gaps on need basis. The bank may explore options to introduce retention bonus, increase ESOPs, and revamp performance-linked incentives for arresting any risk of attrition. That said, we believe some attrition is inevitable and hiring, to an extent, will be warranted to plug the operational risk and compliance gaps, which have been the cause of the bank's earlier fallacies (corporate/retail NPAs) and regulatory ire.
- Asset-quality risk could be limited, given the previous rounds of clean-up:** The new MD continues to allay any kitchen-sinking risk, based on the initial glance on the books and given the earlier rounds of corporate cum retail clean-up. That said, we believe some intermittent asset-quality hiccups cannot be completely ruled out, particularly when the external environment is fragile and internal stress recognition standards are being strengthened. Mr. Subramaniakumar has effectively dealt with corporate stress at IOB and DHFL (being an administrator). This experience should come handy, for strengthening the risk management architecture and possibly accelerating the resolution of some lumpy corporate NPAs. Migration to secured retail assets & enhanced risk monitoring should help the bank avoid future asset-quality shocks as well.
- At current valuations, risk reward looks favorable from a long-term perspective:** We believe the current dismal valuations (0.4x FY24 ABV) largely ignore the new management's strategy (which is appropriate in our view) that focuses on sustainable growth/returns now and be more regulatory-compliant v/s the previous high-risk/high-return strategy that partly led to regulatory intervention. We also take comfort from bank's higher capital level (Tier I -16%). Thus, we recommend Buy on RBL Bank, for investors who are ready to see through the near-term transitional pain for reaping gains in the long term. Key risks: High level of management attrition disrupting the growth/asset-quality improvement story; break-up of card tie-up with BAF.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(Page 7\)](#)

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	58,453	63,673	67,940	75,982	87,130
Net profit	5,079	(747)	8,989	12,687	16,923
EPS (Rs)	9.2	(1.2)	15.0	21.2	28.2
ABV (Rs)	212.0	200.6	215.1	234.4	259.3
RoA (%)	0.5	(0.1)	0.8	1.0	1.2
RoE (%)	4.4	(0.6)	6.9	9.0	11.0
P/E (x)	10.1	(73.9)	6.2	4.4	3.3
P/ABV	0.4	0.5	0.4	0.4	0.4

Source: Company, Emkay Research

CMP	Target Price
Rs 98 as of (August 22, 2022)	Rs 125 (■) 12 months
Rating	Upside
BUY (■)	35.5 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	-/
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

	EPS Estimates	
	FY23E	FY24E
Emkay	15.0	21.2
Consensus	16.2	21.1
Mean Consensus TP (12M)	Rs 127	

Stock Details

Bloomberg Code	RBK IN
Face Value (Rs)	10
Shares outstanding (mn)	600
52 Week H/L	221 / 74
M Cap (Rs bn/USD bn)	55 / 0.70
Daily Avg Volume (nos.)	24,627,980
Daily Avg Turnover (USD mn)	29.7

Shareholding Pattern Jun '22

Promoters	-%
FIIs	26.1%
DIIIs	11.6%
Public and Others	62.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	(23)	(37)	(52)
Rel. to Nifty	1	(24)	(38)	(56)

Relative price chart



Source: Bloomberg

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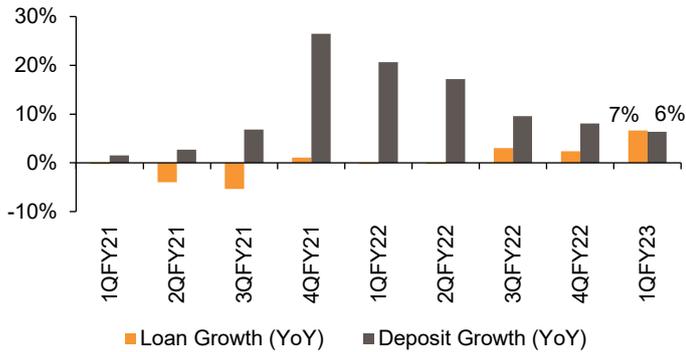
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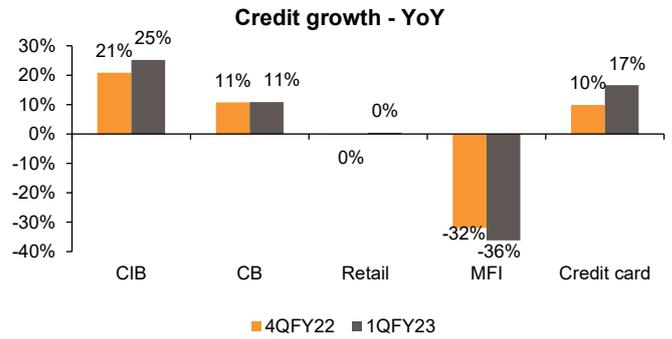
Story in charts

Exhibit 1: Credit growth set to accelerate...



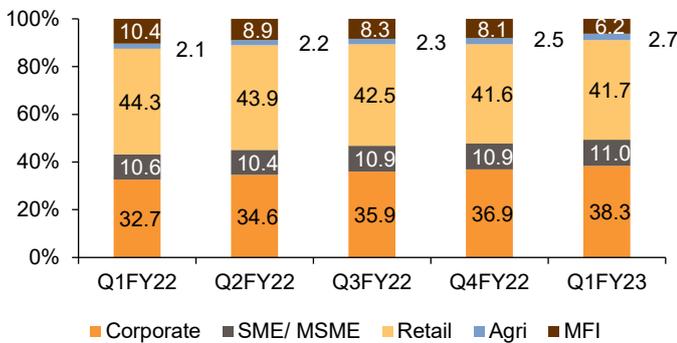
Source: Company, Emkay Research

Exhibit 2: ...led by better growth in card/SME and pick-up in MFI business



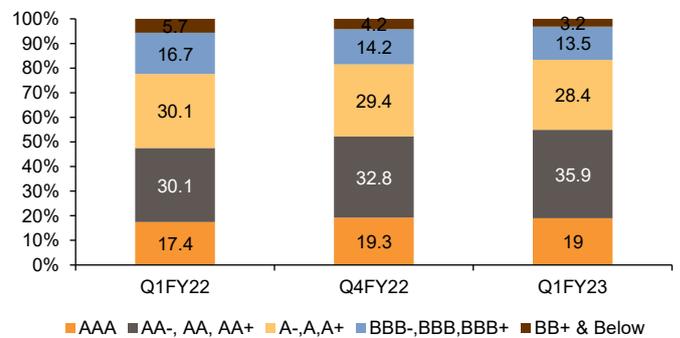
Source: Company, Emkay Research

Exhibit 3: Share of secured retail and SME business expected to inch-up



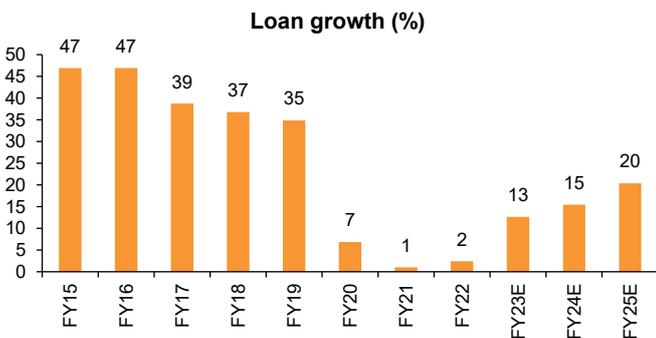
Source: Company, Emkay Research

Exhibit 4: Share of BBB & below book eases, thereby limiting any incremental asset-quality risk



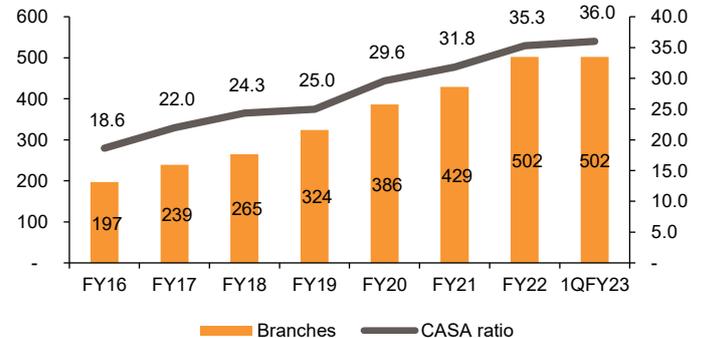
Source: Company, Emkay Research

Exhibit 5: Higher growth phase behind, as Bank would focus now on calibrated growth approach



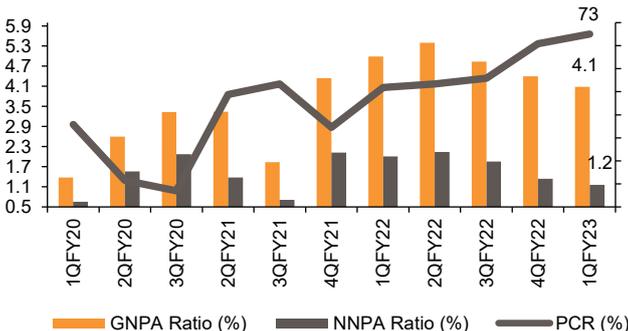
Source: Emkay Research

Exhibit 6: After a deposit scare in 4QFY20, Bank has focused on mobilizing retail deposits/CASA, which should continue



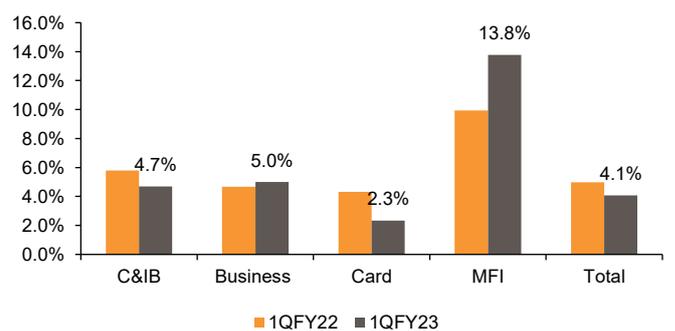
Source: Company, Emkay Research

Exhibit 7: Legacy NPAs well provided for, leading to lower NNPA at 1.2%



Source: Emkay Research

Exhibit 8: Stress remains elevated in the Business loan and MFI segments, which should gradually come-off

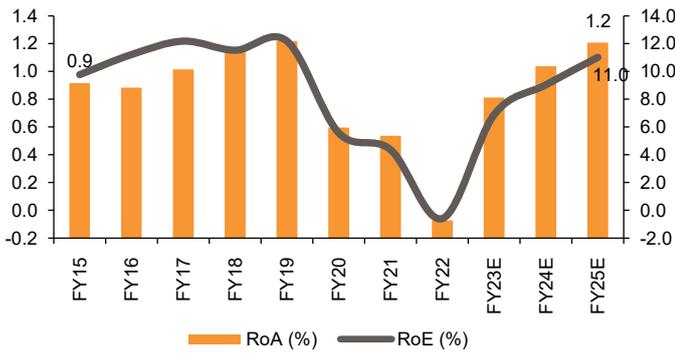


Source: Emkay Research

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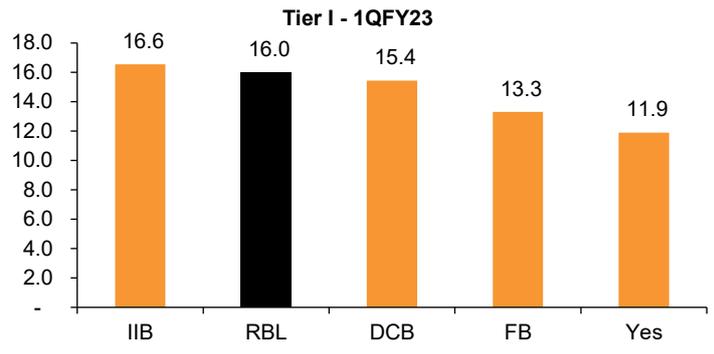
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Exhibit 9: Operating profit/Asset ratio declines as a result of increased opex due to higher investments in branches and tech



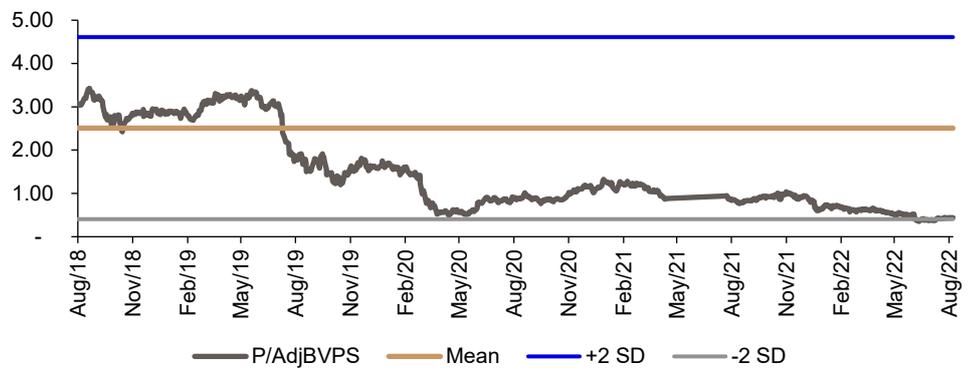
Source: Company, Emkay Research

Exhibit 10: Bank remains well capitalized with Tier I at 16% and, thus, is seeing no pressure to raise capital anytime soon



Source: Emkay Research

Exhibit 11: The stock currently trades at 0.4x – One-year forward ABV



Source: Bloomberg, Emkay Research

Exhibit 12: A sneak peek into RBL's Management Team



Source: Company, Emkay Research

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Key Financials (Standalone)**Income Statement**

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	37,876	40,267	43,103	47,711	54,566
Other income	20,577	23,405	24,837	28,271	32,564
Fee income	14,358	16,512	18,988	22,216	26,438
Net income	58,453	63,673	67,940	75,982	87,130
Operating expenses	27,544	36,219	43,456	48,957	55,199
Pre provision profit	30,909	27,454	24,484	27,025	31,932
PPP excl treasury	28,036	24,815	23,428	26,075	31,077
Provisions	24,020	28,604	12,471	10,071	9,316
Profit before tax	6,889	(1,150)	12,013	16,954	22,615
Tax	1,810	(404)	3,024	4,267	5,692
Tax rate	26	35	25	25	25
Profit after tax	5,079	(747)	8,989	12,687	16,923

Balance Sheet

Y/E March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	5,980	5,995	5,995	5,995	5,995
Reserves	1,20,645	1,20,187	1,28,577	1,40,065	1,55,189
Net worth	1,26,625	1,26,183	1,34,572	1,46,060	1,61,184
Deposits	7,31,212	7,90,065	8,79,556	9,94,621	11,90,442
Borrowings	1,04,959	1,01,630	1,06,712	1,12,048	1,17,650
Total liabilities	10,06,501	10,62,086	11,53,109	12,90,811	15,13,953
Cash and bank	67,047	1,31,111	1,37,666	1,44,550	1,51,777
Investments	2,32,300	2,22,744	2,41,177	2,64,369	3,03,573
Loans	5,86,225	6,00,218	6,76,275	7,80,588	9,39,589
Others	49,069	58,166	70,109	82,229	97,421
Total assets	10,06,501	10,62,086	11,53,109	12,90,811	15,13,954

Key Ratios (%)

Y/E March	FY21	FY22	FY23E	FY24E	FY25E
NIM	4.3	4.2	4.2	4.2	4.2
Non-ll/avg assets	2.2	2.3	2.2	2.3	2.3
Fee income/avg assets	1.5	1.6	1.7	1.8	1.9
Opex/avg assets	2.9	3.5	3.9	4.0	3.9
Provisions/avg assets	2.5	2.8	1.1	0.8	0.7
PBT/avg assets	0.7	(0.1)	1.1	1.4	1.6
Tax/avg assets	0.2	0.0	0.3	0.3	0.4
RoA	0.5	(0.1)	0.8	1.0	1.2
RoAE	4.4	(0.6)	6.9	9.0	11.0
GNPA (%)	4.3	4.4	3.6	3.1	2.7
NNPA (%)	2.1	1.3	1.1	0.9	0.8

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	9.2	(1.2)	15.0	21.2	28.2
BVPS	228.8	210.7	224.5	243.6	268.8
ABVPS	212.0	200.6	215.1	234.4	259.3
DPS	0.0	0.0	1.0	2.0	3.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	10.1	(73.9)	6.2	4.4	3.3
P/BV	0.4	0.5	0.4	0.4	0.4
P/ABV	0.4	0.5	0.4	0.4	0.4
P/PPOP	1.8	2.1	2.3	2.1	1.8
Dividend Yield (%)	0.0	0.0	1.1	2.2	3.3

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	4.3	6.3	7.0	10.7	14.4
PPOP	12.3	(11.2)	(10.8)	10.4	18.2
PAT	0.4	(114.7)	(1,303.3)	41.1	33.4
Loans	1.0	2.4	12.7	15.4	20.4

Quarterly (Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23
NII	9,695	9,155	10,104	11,313	10,277
NIM (%)	4.4	4.1	4.3	5.0	4.4
PPOP	7,661	6,909	6,308	6,574	5,291
PAT	(4,605)	303	1,558	1,976	2,010
EPS (Rs)	(7.70)	0.51	2.60	3.30	3.35

Source: Company, Emkay Research

Shareholding Pattern (%)	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	-	-	-	-	-
FII	32.2	29.2	28.9	28.2	26.1
DII	20.7	22.3	19.7	19.1	11.6
Public and Others	47.1	48.5	51.4	52.8	62.3

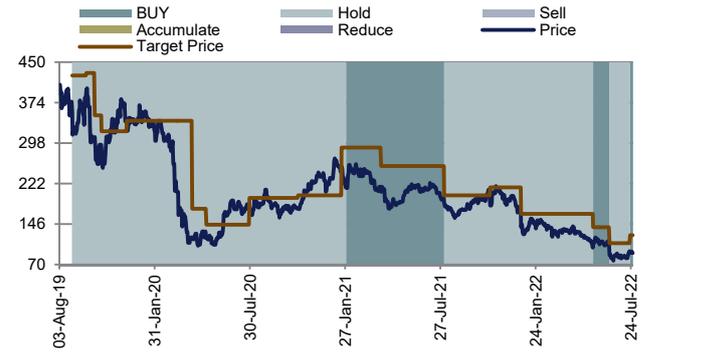
Source: Capitaline

RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Jul-22	92	125	12m	Buy	Anand Dama
13-Jun-22	88	110	12m	Hold	Anand Dama
13-May-22	111	140	12m	Buy	Anand Dama
28-Jan-22	148	165	12m	Hold	Anand Dama
27-Dec-21	141	165	12m	Hold	Anand Dama
29-Oct-21	181	215	12m	Hold	Anand Dama
03-Aug-21	187	200	12m	Hold	Anand Dama
05-Apr-21	206	255	12m	Buy	Anand Dama
29-Jan-21	214	290	12m	Buy	Anand Dama
20-Jan-21	254	290	12m	Hold	Anand Dama
29-Oct-20	175	200	12m	Hold	Anand Dama
29-Jul-20	177	195	12m	Hold	Anand Dama
08-May-20	119	145	12m	Hold	Anand Dama
11-Apr-20	121	175	12m	Hold	Anand Dama
23-Jan-20	339	340	12m	Hold	Anand Dama
09-Dec-19	335	340	12m	Hold	Anand Dama
22-Oct-19	287	320	12m	Hold	Anand Dama
09-Oct-19	310	350	12m	Hold	Anand Dama
23-Sep-19	398	430	12m	Hold	Anand Dama
27-Aug-19	357	425	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

Emkay Alpha Portfolio – BFSI-Banks



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Sector

Banks

Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 13 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight based on Current NAV	Change vs last published EAP (bps)
BFSI-Banks	20.00	20.00	0.0%	0	100.00	
Axis Bank	1.97	2.05	4%	8	10.26	0
AU Small Finance Bank	0.29	0.22	-24%	-7	1.12	0
Bandhan Bank	0.18	0.17	-8%	-1	0.83	0
Bank of Baroda	0.21	0.18	-16%	-3	0.89	0
Canara Bank	0.12	0.12	0%	0	0.62	0
City Union Bank	0.00	0.04	NA	4	0.21	0
DCB Bank	0.00	0.00	NA	0	0.00	0
Equitas Small Finance Bank	0.00	0.00	NA	0	0.00	0
Federal Bank	0.20	0.20	0%	0	1.02	0
HDFC Bank	6.22	6.30	1%	7	31.50	0
ICICI Bank	5.75	5.88	2%	13	29.42	0
Indian Bank	0.00	0.00	NA	0	0.00	0
Indusind Bank	0.61	0.70	15%	9	3.52	0
Karur Vysya Bank	0.00	0.06	NA	6	0.32	0
Kotak Mahindra Bank	2.34	2.02	-14%	-32	10.08	0
Punjab National Bank	0.09	0.00	-100%	-9	0.00	0
RBL Bank	0.00	0.00	NA	0	0.00	0
State Bank of India	1.90	2.02	6%	12	10.10	0
Ujjivan Small Finance Bank	0.00	0.00	NA	0	0.00	0
Union Bank of India	0.04	0.00	-100%	-4	0.00	0
Yes Bank	0.05	0.02	-58%	-3	0.11	0
Cash	0.00	0.00	NA	0	0.00	0

Source: Emkay Research

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

Sector portfolio NAV

	Base					Latest
	1-Apr-19	20-Aug-21	18-Feb-22	19-May-22	19-Jul-22	19-Aug-22
EAP - BFSI-Banks	100.0	120.5	128.7	114.2	122.9	134.1
BSE200 Neutral Weighted Portfolio (ETF)	100.0	117.9	126.2	112.0	120.5	131.4

*Performance measurement base date 1st April 2019

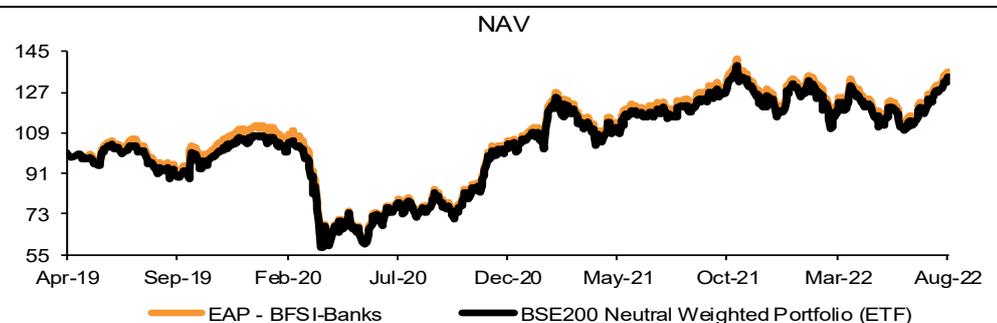
Source: Emkay Research

Price Performance (%)

	1m	3m	6m	12m
EAP - BFSI-Banks	9.1%	17.4%	4.2%	11.3%
BSE200 Neutral Weighted Portfolio (ETF)	9.1%	17.3%	4.2%	11.5%

Source: Emkay Research

NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

“Emkay Alpha Portfolio – SMID and Nifty are a supporting document to the Emkay Alpha Portfolios Report and is updated on regular intervals”

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Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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