

Retail Equity Research

RBL Bank Ltd.

Banking

BSE CODE: 540065

NSE CODE: RBLBANK

Bloomberg CODE: RBK:IN

SENSEX: 37,607

HOLD

12M Investment period

Rating as per Small cap

CMP Rs. 170

TARGET Rs. 175

RETURN 3% ↑

(Closing: 31-07-20)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Higher provisioning hits performance

RBL Bank Ltd. is a fast-growing private sector bank with a network of 386 branches and over 8.5 million customers. It offers various services, including corporate and institutional banking, commercial banking, retail banking, agricultural development banking and financial market access.

- Advances decline 2.3% QoQ, remain flat on YoY basis. Average CASA ratio for the quarter stood at 29.3%.
- Net interest income grew 27.4% with reported NIM at 4.85%.
- Net profit slid further by 47.1% YoY as bank made provisions of Rs. 500cr (incl. COVID-19 provisions of Rs. 240cr).
- Profit margins to remain under pressure in the near-term with slow uptick in credit growth, as retail and wholesale borrowers shy away from taking loans, even as the countrywide lockdowns continue. We reiterate our HOLD rating on the stock with a revised target price of Rs. 175 based on 0.75x FY22E BVPS.

Bottom-line declines on provisions

Total advances made during the quarter stood at Rs. 56,683cr (-0.3% YoY, -2.3% QoQ). In-line with the bank's portfolio recalibration efforts, non-wholesale (retail) advances grew 24.4% YoY to Rs. 29,941cr, while wholesale sales declined 18.4% YoY to Rs. 26,742cr. Deposits went up 1.5% YoY at Rs. 61,736cr, while 18.2% YoY growth was registered in CASA at Rs 18,566cr, with a 430bps improvement seen in CASA ratio at 30.1%. Slippage ratio improved significantly to 0.01% during the quarter as against 1.19% in Q4FY20 and 0.41% in the prior year period. Bank's GNPA/NNPA stood at 3.45%/1.65% with net NPAs of Rs. 933cr.

Sequential decline in profit margins continues

Q1FY21 NII rose 27.4% YoY to Rs. 1,041cr as the bank managed to sustain advances at previous year levels despite the pandemic impacting credit growth. Additionally, the moratorium also contributed towards the growth in interest income. The net interest margin (NIM) stood at 4.85% as against 4.93% in Q4FY20, while cost to income ratio declined to 49.8% vs. 50.6% in Q4FY20. Operating profit before provisions grew 14.5 % YoY to Rs. 690cr, however was down 7.3% on QoQ basis. Provisions grew 154% YoY to Rs. 500cr, though excluding additional COVID-19 provisions of Rs. 240cr, the overall provisions grew 32.1% YoY. As a result, PAT fell 47.1% YoY to Rs. 141cr (+23.5% QoQ).

Key con-call highlights

- Management expects growth to get back on track from Q4FY21.
- The retail-to-wholesale advances mix for the quarter stands at 53:47.
- Bank had surplus liquidity of Rs. 13,600cr with an average liquidity coverage ratio (LCR) of 164%.
- Branch count increased by 6 taking the total to 392 branches as at June 30.

Outlook & Valuation

As the pandemic continues, risk aversion remains high among borrowers and will play a spoilsport limiting growth in advances thus impacting RBL's interest margins. Even with implementation of measures aimed at improving credit growth, and despite the strong traction seen in deposits, RBL's bottom-line will remain under pressure in the near-term. We see limited upside at current levels and maintain our HOLD rating on the stock with a revised target price of Rs. 175 arriving at using 0.75x FY22E P/BV.

Company Data

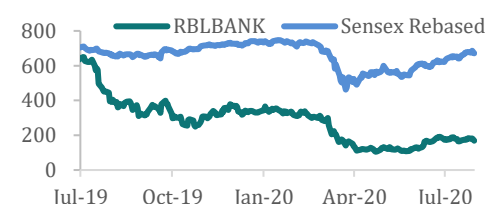
Market Cap (cr)	Rs. 8,611
Outstanding Shares (cr)	51.0
Free Float	81.0%
Dividend Yield	0.9%
52 week high	Rs. 414
52 week low	Rs. 102
6m average volume (cr)	0.2
Beta	1.3
Face value	Rs. 10.0

Shareholding %	Q3FY20	Q4FY20	Q1FY21
Promoters	0.0	0.0	0.0
FII's	24.3	25.5	29.3
MFs/Insti	30.2	30.5	22.5
Public	20.3	19.2	21.8
Others	25.2	24.8	26.5
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	27.9%	-47.1%	-57.2%

Absolute Sensex	11.9%	-7.8%	0.9%
Relative Return*	16.0%	-39.3%	-58.1%

*over- or underperformance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	3,630	3,824	4,250
Growth (%)	42.9	5.3	11.2
NIM (%)	4.9	4.8	4.9
Pre-provision Profit	2,714	2,888	3,077
Net Profit	506	437	961
Growth (%)	(41.7)	(13.5)	119.8
Adj. EPS	11.1	8.6	18.9
Growth (%)	(44.6)	(22.7)	119.8
BVPS	232.3	214.8	232.5
P/E	12.2	19.7	9.0
P/B	0.6	0.8	0.7
P/ABV	0.6	0.8	0.7
ROE (%)	5.6	4.1	8.4
ROA (%)	0.6	0.5	0.9

Quarterly Financials (Standalone)

Profit & Loss Account

	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Interest Income	2,235	2,023	10.5	2,208	1.2
Interest Expense	1,194	1,205	(1.0)	1,187	0.5
Net Interest Income (NII)	1,041	817	27.4	1,021	2.0
Non-Interest Income	333	481	(30.7)	501	(33.4)
Total Net Income	1,375	1,299	5.9	1,522	(9.7)
Total Income	2,568	2,504	2.6	2,709	(5.2)
Operating Expenses	685	696	(1.6)	770	(11.0)
Total Expenditure	1,879	1,901	(1.2)	1,957	(4.0)
Pre-Provision profit	690	603	14.5	752	(8.3)
Provisions	500	197	154.0	601	(16.8)
Profit Before Tax	190	406	(53.3)	151	25.7
Tax	48	139	(65.1)	36	32.8
Net Profit	141	267	(47.1)	114	23.5
EPS - Diluted (Rs.)	2.8	6.1	(54.7)	2.3	23.1

Change in Estimates

	Old Estimates		New Estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	3,858	4,073	3,824	4,250	(0.9)	4.3
Net Interest Margin (%)	4.9	4.7	4.8	4.9	(3bps)	24bps
Pre-Provisioning Profit	2,913	2,950	2,888	3,077	(0.9)	4.3
Net Profit	558	703	437	961	(21.6)	36.7
EPS (Rs.)	10.9	13.8	8.6	18.9	(21.6)	36.8

PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	4,508	6,301	8,514	8,941	10,025
Interest Expense	2,741	3,761	4,885	5,117	5,775
Net Int. Income	1,766	2,539	3,630	3,824	4,250
% Change	44.6	43.8	42.9	5.3	11.2
Non-Int. Income	1,068	1,442	1,910	2,101	2,269
Net Income	2,834	3,982	5,540	5,925	6,520
Total Income	5,576	7,743	10,425	11,042	12,294
Operating Exp.	1,503	2,042	2,826	3,037	3,442
Total Exp.	4,245	5,803	7,710	8,154	9,217
Pre-Prov. Profit	1,331	1,940	2,714	2,888	3,077
Provisions	365	641	1,962	2,304	1,793
PBT	967	1,299	753	584	1,284
Tax	331	432	247	147	323
Tax Rate (%)	34.3	33.3	32.8	25.2	25.2
Net Profit	635	867	506	437	961
% Change	42.4	36.5	(41.7)	(13.5)	119.8
No. of Shares (cr)	42	43	46	51	51
Adj. EPS (Rs.)	15.2	20.0	11.1	8.6	18.9
% Change	28.6	32.1	(44.6)	(22.7)	119.8
DPS (Rs.)	2.1	2.7	1.5	1.2	2.5

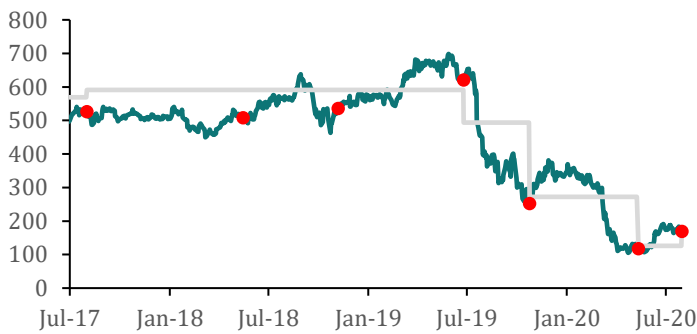
BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	4,284	6,602	8,857	9,122	10,649
Investments	15,447	16,840	18,150	19,058	21,916
Advances	40,268	54,308	58,019	63,241	69,565
Fixed Assets	334	402	0	0	0
Other Assets	1,517	2,206	3,952	5,928	8,892
Total Assets	61,851	80,359	88,978	97,348	1,11,022
Capital	420	427	509	509	509
Reserves & Surplus	6,264	7,121	10,074	10,443	11,345
Deposits	43,902	58,394	57,812	63,593	73,132
Borrowings	9,261	11,832	17,007	19,048	21,905
Other Liabilities	2,003	2,585	3,576	3,755	4,130
Total Liabilities	61,851	80,359	88,978	97,348	1,11,022
BVPS (Rs.)	159.7	178.1	232.3	214.8	232.5
% Change	39.2	11.5	33.2	(7.5)	8.2

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Valuation					
P/E (x)	35.4	33.9	12.2	19.7	9.0
P/BV (x)	3.4	3.9	0.6	0.8	0.7
Div. Yield (%)	0.4	0.4	1.1	0.7	1.5
Profitab. & Return (%)					
Yield on Advances	9.8	10.7	12.3	12.0	12.0
Cost of Deposits	5.7	6.1	6.7	6.5	6.5
Spread	4.1	4.6	5.6	5.5	5.5
NIM	3.6	4.0	4.9	4.8	4.9
ROE	11.5	12.2	5.6	4.1	8.4
ROA	1.1	1.2	0.6	0.5	0.9
Capital Adequacy (%)					
CAR	15.3	13.5	16.4	15.5	14.8
Tier I	13.6	12.1	15.3	14.5	13.8
Tier II	1.7	1.4	1.1	1.0	1.0
Asset Quality (%)					
GNPA	1.4	1.4	3.7	5.0	4.5
NNPA	0.8	0.7	2.0	2.8	2.3
Operating Ratios (%)					
Credit/ Deposit	91.7	93.0	100.4	99.4	95.1
Cost/ Income	53.0	51.3	51.0	51.3	52.8
CASA	24.3	25.0	29.6	28.3	29.5

Recommendation Summary



Dates	Rating	Target
1-Aug-17	ACCUMULATE	591
15-May-18	ACCUMULATE	591
6-Nov-18	ACCUMULATE	591
25-Jul-19	HOLD	494
25-Oct-19	HOLD	272
18-May-20	HOLD	126
31-Jul-20	HOLD	175

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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