

Retail Equity Research

RBL Bank Ltd.

Banking

BSE CODE: 540065

NSE CODE: RBLBANK

Bloomberg CODE: RBK:IN

SENSEX: 39,020

HOLD

12M Investment period

Rating as per Mid cap

CMP Rs 252

TARGET Rs 272

RETURN 8%

(Closing: 24-10-19)



KEY CHANGES:

TARGET ↓

RATING ↔

EARNINGS ↓

Elevated NPA levels & provisions

RBL Bank Ltd. is a fast-growing private sector bank with a network of 346 branches and over 7.3 million customers. It offers various services, including corporate and institutional banking, commercial banking, retail banking, agricultural development banking and financial market access.

- Advances increased 27.5% YoY, mainly driven by retail assets (+62.0%) and developmental banking (+24.0%).
- Bank's deposit base also increased 31.5% YoY and 3.3% sequentially, with CASA growth of 41.9% YoY and 5.8% QoQ.
- Net interest margin (NIM) improved 27bps YoY and 4bps sequentially to 4.4% in Q2FY20.
- GNPA and NNPA remain elevated at 2.6% and 1.6% respectively due to credit challenges from corporate accounts.
- We value the bank at 1.2x on FY21E BVPS of Rs. 233, with a reduced target price of Rs. 272, and retain our HOLD rating.

Tapering growth in Advances and Deposits

Advances grew 27.5% YoY and 2.9% QoQ to Rs. 58,476cr in Q2FY20. Growth in advances was fuelled by non-wholesale advances (+49% YoY), partially pulled down by the slow growth in wholesale advances (+12% YoY). Deposits witnessed growth of 31.5% YoY to Rs. 62,829cr, while CASA deposits grew at 41.9% YoY to Rs. 16,620cr. Credit cards in force grew 92.4% YoY to 2.3mn in Q2FY20, however, the company has reduced new card acquisition by tightening the credit acceptance filters, in view of the unstable macro environment.

Lower net profit amid higher provisions

Net interest income registered a strong 46.5% YoY growth to Rs. 869cr, while NIM is at an all-time high of 4.4% in Q2FY20 (vs 4.1% in Q2FY19). Yield on advances improved 120bps YoY to 12.1% due to improved business mix, whereas, cost of funds increased by 40bps YoY to 6.8%. Despite pre-provisioning profit increasing 41.6% YoY to Rs. 636cr in Q2FY20, net profit declined 73.4% YoY to Rs. 54cr, largely due to higher provisions of Rs. 533cr (vs Rs. 140cr in Q2FY19).

Deterioration in asset quality

Gross NPA's increased 138.6% YoY to Rs.1539cr in Q2FY20, while Net NPA's increased 169.5% YoY to Rs. 912cr. The company is expected to recognize significant portion as NPA in the next quarter considering the current credit environment. Capital adequacy ratio stood at 12.3% in Q2FY20 (vs 13.7% in Q2FY19) with Tier 1 CAR at 11.3%.

Key concall highlights

- Recognized additional NPA of Rs. 800cr & additional provision of Rs. 350cr.
- Management expects the total NPA to be ~Rs. 1,800cr across the 4 groups (east based, diversified media, south based coffee and west based plastics).
- The bank added 14 branches in 2QFY20 and expects to increase the number of branches to ~400 by FY20.
- Bank expects FY20 profits to be around 75%-80% of FY19.

Outlook & Valuation

Bank reported a lower net profit well below market expectations due to large provisions on account of prospective spike in NPAs. We expect the NPA levels to elevate further leading to increase in provisions. Hence, we value the bank at P/BV of 1.2x for FY21E and retain our rating to HOLD with an updated target price of Rs. 272.

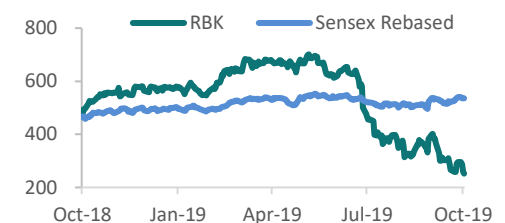
Company Data

Market Cap (cr)	Rs. 10,858
Outstanding Shares (cr)	43.1
Free Float	100.0%
Dividend Yield	0.4%
52 week high	Rs. 716.5
52 week low	Rs. 230.6
6m average volume (cr)	0.1
Beta	1.8
Face value	Rs. 10.0

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	0.0	0.0	0.0
FII's	18.8	18.8	18.6
MFs/Insti	24.8	25.1	25.8
Public	23.6	23.2	23.3
Others	32.8	32.9	32.4
Total	100.0	100.0	100.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-44.8%	-62.5%	-49.0%
Absolute Sensex	3.1%	-0.1%	14.7%
Relative Return*	-47.9%	-62.4%	-63.6%

*over- or underperformance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Net Interest Income	2,539	3,396	4,324
Growth (%)	43.8	33.7	27.3
NIM (%)	3.6	3.9	4.0
Pre-provision Profit	1,940	2,564	3,255
Net Profit	867	799	1,398
Growth (%)	36.5	-7.8	74.9
Adj. EPS	20.5	18.3	32.0
Growth (%)	34.8	-10.6	74.9
BVPS	178.1	202.6	232.7
P/E	33.2	13.8	7.9
P/B	3.8	1.2	1.1
P/ABV	3.8	1.2	1.1
ROE (%)	12.2	9.7	14.7
ROA (%)	1.2	0.9	1.3

Quarterly Financials (Standalone)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Interest Income	2,126	1,463	45.3	2,023	5.1	4,149	2,828	46.7
Interest Expense	1,257	870	44.5	1,205	4.3	2,463	1,682	46.4
Net Interest Income (NII)	869	593	46.5	817	6.3	1,686	1,146	47.2
Non-Interest Income	442	333	32.5	481	(8.2)	923	659	40.0
Total Net Income	1,310	926	41.5	1,299	0.9	2,609	1,805	44.5
Total Income	2,568	1,797	42.9	2,504	2.5	5,072	3,487	45.5
Operating Expenses	674	477	41.4	680	(0.8)	1,354	923	46.6
Total Expenditure	1,932	1,347	43.4	1,885	2.5	3,817	2,605	46.5
Pre-Provision profit	636	449	41.6	619	2.8	1,255	881	42.3
Provisions	533	140	281.8	213	150.2	746	280	166.6
Profit Before Tax	103	309	(66.9)	406	(74.7)	508	601	(15.5)
Tax	48	105	(54.0)	139	(65.2)	187	207	(9.7)
Net Profit	54	205	(73.4)	267	(79.7)	321	395	(18.6)
EPS - Diluted (Rs)	1.3	4.7	(73.4)	6.1	(79.4)	7.4	9.1	(19.4)

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Net Interest Income (NII)	3,656	4,696	3,396	4,324	(7.1)	(7.9)
Net Interest Margin (%)	4.0	4.1	3.9	4.0	(11bps)	(11bps)
Pre-Provision Profit	2,488	2,996	2,564	3,255	3.1	8.6
Net Profit	1,088	1,245	799	1,398	(26.5)	12.3
EPS (Rs)	25.5	29.1	18.7	32.7	(26.6)	12.4

PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Interest Income	3,713	4,508	6,301	8,535	11,048
Interest Expense	2,492	2,741	3,761	5,139	6,724
Net Int. Income	1,221	1,766	2,539	3,396	4,324
% Change	49.1	44.6	43.8	33.7	27.3
Non-Int. Income	755	1,068	1,442	1,875	2,438
Net Income	1,977	2,834	3,982	5,271	6,761
Total Income	4,469	5,576	7,743	10,410	13,486
Operating Exp.	1,056	1,503	2,042	2,707	3,506
Total Exp.	3,548	4,245	5,803	7,846	10,231
Pre-Prov. Profit	920	1,331	1,940	2,564	3,255
Provisions	239	365	641	1,466	1,387
PBT	681	967	1,299	1,098	1,868
Tax	235	331	432	299	470
Tax Rate (%)	34.5	34.3	33.3	27.2	25.2
Net Profit	446	635	867	799	1,398
% Change	52.5	42.4	36.5	(7.8)	74.9
No. of Shares (cr)	38	42	42	44	44
Adj. EPS (Rs)	11.8	15.2	20.5	18.3	32.0
% Change	25.2	28.6	34.8	(10.6)	74.9
DPS (Rs)	1.8	2.1	2.7	1.9	3.3

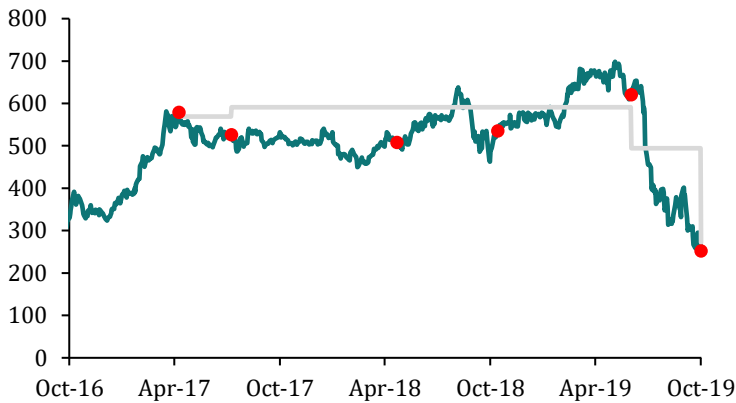
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash & Balances	4,194	4,284	6,602	8,788	9,909
Investments	13,482	15,447	16,840	19,366	22,271
Advances	29,449	40,268	54,308	67,885	86,214
Fixed Assets	259	334	402	487	589
Other Assets	1,292	1,517	2,206	2,867	3,728
Total Assets	48,675	61,851	80,359	99,394	122,712
Capital	375	420	427	440	440
Reserves & Surplus	3,960	6,264	7,121	8,416	9,732
Deposits	34,588	43,902	58,394	72,993	91,241
Borrowings	7,980	9,261	11,832	14,908	18,636
Other Liabilities	1,771	2,003	2,585	2,637	2,663
Total Liabilities	48,675	61,851	80,359	99,394	122,712
BVPS (Rs)	114.7	159.7	178.1	202.6	232.7
% Change	19.0	39.2	11.5	13.7	14.9

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Valuation					
P/E (x)	41.9	35.4	33.2	13.8	7.9
P/BV (x)	4.3	3.4	3.8	1.2	1.1
Div. Yield (%)	0.4	0.4	0.4	0.7	1.3
Profitab. & Return (%)					
Yield on Advances	10.4	9.8	10.7	11.5	12.1
Cost of Deposits	6.4	5.7	6.1	6.5	6.8
Spread	4.0	4.1	4.6	5.0	5.3
NIM	3.1	3.6	3.6	3.9	4.0
ROE	12.2	11.5	12.2	9.7	14.7
ROA	1.0	1.1	1.2	0.9	1.3
Capital Adequacy (%)					
CAR	13.7	15.3	13.5	11.8	11.0
Tier I	11.4	13.6	12.1	10.7	10.1
Tier II	2.3	1.7	1.4	1.1	0.9
Asset Quality (%)					
GNPA	1.2	1.4	1.4	3.0	3.2
NNPA	0.6	0.8	0.7	1.8	1.9
Operating Ratios (%)					
Credit/ Deposit	85.1	91.7	93.0	93.0	94.5
Cost/ Income	53.4	53.0	51.3	51.4	51.9
CASA	22.0	24.3	25.0	27.3	29.8

Recommendation Summary



Source: Bloomberg, Geojit research

Dates	Rating	Target
2-May-17	HOLD	569
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

Investment Rating Criteria

Large Cap Stocks;

Buy	-	Upside is above 10%.
Hold	-	Upside is between 0% - 10%.
Reduce	-	Downside is more than 0%.
Neutral	-	Not Applicable

Mid Cap and Small Cap;

Buy	-	Upside is above 15%.
Accumulate	-	Upside is between 10% - 15%.
Hold	-	Upside is between 0% - 10%.
Reduce/Sell	-	Downside is more than 0%.
Neutral	-	Not Applicable

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

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Neutral- The analyst has no investment opinion on the stock under review

General Disclosures and Disclaimers

CERTIFICATION

I, Abijith T Cherian, author of this Report, hereby certify that all the views expressed in this research report reflect our personal views about any or all of the subject issuer or securities. This report has been prepared by the Research Team of Geojit Financial Services Limited, hereinafter referred to as Geojit.

COMPANY OVERVIEW

Geojit, a publically listed company, is engaged in services of retail broking, depository services, portfolio management and marketing investment products including mutual funds, insurance and properties. GEOJIT is a SEBI registered Research Entity and as such prepares and shares research data and reports periodically with clients, investors, stake holders and general public in compliance with Securities and Exchange Board of India Act, 1992, Securities And Exchange Board Of India (Research Analysts) Regulations, 2014 and/or any other applicable directives, instructions or guidelines issued by the Regulators from time to time.

DISTRIBUTION OF REPORTS: This document is not for public distribution and has been furnished to you solely for your information and must not be reproduced or redistributed to any other person. GEOJIT will not treat the recipients of this report as clients by virtue of their receiving this report.

GENERAL REPRESENTATION: The research reports do not constitute an offer or solicitation for the purchase or sale of any financial instruments, inducements, promise, guarantee, warranty, or as an official confirmation of any transaction or contractual obligations of any kind. This report is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The information contained herein is from publicly available data or other sources believed to be reliable, but we do not represent that it is accurate or complete and it should not be relied on as such. We have also reviewed the research report for any untrue statements of material facts or any false or misleading information. While we endeavor to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

RISK DISCLOSURE: GEOJIT and/or its Affiliates and its officers, directors and employees including the analyst/authors shall not be in any way be responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Investors may lose his/her entire investment under certain market conditions so before acting on any advice or recommendation in these material, investors should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice. This report does not take into account the specific investment objectives, financial situation/circumstances and the particular needs of any specific person who may receive this document. The user assumes the entire risk of any use made of this information. Each recipient of this report should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this report (including the merits and risks involved). The price, volume and income of the investments referred to in this report may fluctuate and investors may realize losses that may exceed their original capital.



FUNDAMENTAL DISCLAIMER: We have prepared this report based on information believed to be reliable. The recommendations herein are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/return/lack of clarity/event we may revisit rating at appropriate time. The stocks always carry the risk of being upgraded to buy or downgraded to a hold, reduce or sell. The opinions expressed are subject to change but we have no obligation to tell our clients when our opinions or recommendations change. This report is non-inclusive and does not consider all the information that the recipients may consider material to investments. This report is issued by GEOJIT without any liability/undertaking/commitment on the part of itself or any of its entities. We may have issued or may issue on the companies covered herein, reports, recommendations or information which is contrary to those contained in this report. The projections and forecasts described in this report should be evaluated keeping in mind the fact that these are based on estimates and assumptions and will vary from actual results over a period of time. The actual performance of the companies represented in the report may vary from those projected. These are not scientifically proven to guarantee certain intended results and hence, are not published as a warranty and do not carry any evidentiary value whatsoever. These are not to be relied on in or as contractual, legal or tax advice. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

CRISIL has provided research support in preparation of this research report and the investment rational contained herein along with financial forecast. The target price and recommendation provided in the report are strictly Geojit's views and are NOT PROVIDED by CRISIL. Further, CRISIL expresses no opinion on valuation and the associated recommendations. CRISIL has no financial liability whatsoever, to the subscribers / users of this report.

JURISDICTION: The securities described herein may not be eligible for sale in all jurisdictions or to all categories of investors. The countries in which the companies mentioned in this report are organized may have restrictions on investments, voting rights or dealings in securities by nationals of other countries. Distributing/taking/sending/dispatching/transmitting this document in certain foreign jurisdictions may be restricted by law, and persons into whose possession this document comes should inform themselves about, and observe any such restrictions. Failure to comply with this restriction may constitute a violation of any foreign jurisdiction laws. Foreign currencies denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. Investors in securities such as ADRs, the value of which are influenced by foreign currencies effectively assume currency risk.

REGULATORY DISCLOSURES: GEOJIT's Associates consists of privately held companies such as Geojit Technologies Private Limited (GTPL- Software Solutions provider), Geojit Credits Private Limited (GCPL- NBFC Services provider), Geojit Investment Services Limited (GISL- Corporate Agent for Insurance products), Geojit Financial Management Services Private Limited (GFMSL) & Geojit Financial Distribution Private Limited (GFDPL), (Distributors of Insurance and MF Units). In the context of the SEBI Regulations on Research Analysts (2014), GEOJIT affirms that we are a SEBI registered Research Entity and in the course of our business as a stock market intermediary, we issue research reports /research analysis etc that are prepared by our Research Analysts. We also affirm and undertake that no disciplinary action has been taken against us or our Analysts in connection with our business activities.

In compliance with the above mentioned SEBI Regulations, the following additional disclosures are also provided which may be considered by the reader before making an investment decision:

1. Disclosures regarding Ownership*:

GEOJIT confirms that:

It/its associates have no financial interest or any other material conflict in relation to the subject company (ies) covered herein.

It/its associates have no actual beneficial ownership greater than 1% in relation to the subject company (ies) covered herein.

Further, the Analyst confirms that:

He, his associates and his relatives have no financial interest in the subject company (ies) covered herein, and they have no other material conflict in the subject company.

He, his associates and his relatives have no actual/beneficial ownership greater than 1% in the subject company covered

2. Disclosures regarding Compensation:

During the past 12 months, GEOJIT or its Associates:

(a) Have not received any compensation from the subject company; (b) Have not managed or co-managed public offering of securities for the subject company (c) Have not received any compensation for investment banking or merchant banking or brokerage services from the subject company (d) Have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company and is in receipt of compensation from the subject company." (e) Have not received any compensation or other benefits from the subject company or third party in connection with the research report (f) The subject company is / was not a client during twelve months preceding the date of distribution of the research report.

3. Disclosure by GEOJIT regarding the compensation paid to its Research Analyst:

GEOJIT hereby confirms that no part of the compensation paid to the persons employed by it as Research Analysts is based on any specific brokerage services or transactions pertaining to trading in securities of companies contained in the Research Reports.

4. Disclosure regarding the Research Analyst's connection with the subject company:

It is affirmed that I, Abijith T Cherian, Research Analyst(s) of GEOJIT have not served as an officer, director or employee of the subject company

5. Disclosure regarding Market Making activity:

Neither GEOJIT/its Analysts have engaged in market making activities for the subject company.

Please ensure that you have read the "Risk Disclosure Documents for Capital Market and Derivatives Segments" as prescribed by the Securities and Exchange Board of India before investing.

Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

Corporate Identity Number: L67120KL1994PLC008403, SEBI Stock Broker Registration No INZ000104737, Research Entity SEBI Reg No: INH200000345, Investment Adviser SEBI Reg No: INA200002817, Portfolio Manager: INP000003203, Depository Participant: IN-DP-325-2017, ARN Regn.Nos:0098, IRDA Corporate Agent (Composite) No.: CA0226