

## Retail Equity Research

# RBL Bank Ltd.

**HOLD**

### Banking

BSE CODE: 540065

NSE CODE: RBLBANK

Bloomberg CODE: RBK:IN

SENSEX: 44,260

12M Investment period

Rating as per Small cap

 CMP Rs. 222    TARGET Rs. 230    RETURN 4% 
**KEY CHANGES:**
**TARGET** 
**RATING** 
**EARNINGS** 

### Valuation justified at current price levels

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.

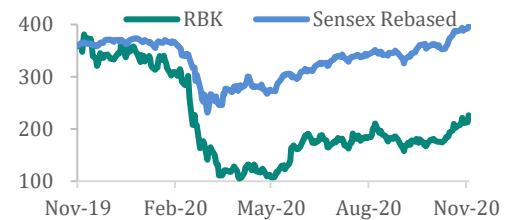
- Q2FY21 Net interest income improved 7.3% YoY due to 20bps rise in yields on advances and 90bps reduction in cost of deposits.
- Pre-provision operating profit grew 11.9% YoY, additionally helped by lower total expenses. Resultantly, PAT surged 165.4% YoY to Rs. 144 cr.
- COVID-19 related risks have already been incorporated and the bank's valuation looks justified at current price levels. We expect gradual recovery in credit lending on the back of recent capital infusion. However given the uncertainties in the credit market, we remain cautious on the stock and maintain our rating as HOLD with a revised target price of Rs. 230 based on 1.0x FY22E P/BV

### Company Data

Market Cap (cr)	Rs. 11,543		
Outstanding Shares (cr)	50.9		
Free Float	81.0%		
Dividend Yield	0.9%		
52 week high	Rs. 391		
52 week low	Rs. 102		
6m average volume (cr)	0.2		
Beta	1.3		
Face value	Rs. 10.0		
Shareholding %	Q4FY20	Q1FY21	Q2FY21
Promoters	0.0	0.0	0.0
FII	25.5	29.3	27.8
MFs/Insti	30.5	22.5	22.0
Public	19.2	21.8	25.7
Others	24.8	26.5	24.6
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	20.0%	111.3%	-37.2%
Absolute Sensex	12.8%	42.9%	7.2%
Relative Return*	7.2%	68.4%	-44.4%

\*over- or underperformance to benchmark index



### Robust bottom-line performance on lower expenses

For Q2FY21, Net interest income reached Rs. 932cr (+7.3% YoY), due to rise in yields on advances to 12.3% (up 20bps YoY) & reduction in cost of deposits to 6.0% (down 90bps YoY). Despite the 110bps improvement in spreads, the NIM margin remained flat at 4.3% on YoY basis, while it was down QoQ due to proactive reversal of interest income on Non-Wholesale Advances expected to slip by Q3FY21. Bank's Pre-provision profit grew 11.9% YoY aided by lower expenses (-5.8% YoY to Rs. 1,814cr) as Cost/Income improved 270 bps YoY to 48.2%. Resultantly, PAT expanded 165% to Rs. 144cr on YoY basis.

### Moderation in lending to low yield wholesale segment

CASA increased 8.1% QoQ to Rs. 20,064cr while CASA ratio reached 31.1% (from 30.1% in Q1FY20) with deposits rising to Rs. 64,506cr (+4.5% QoQ). Loan advances dropped to Rs. 56,162cr (-0.9% QoQ), due to continued moderation in wholesale advances (-10% QoQ) to Rs. 24,020cr, with a retail-wholesale mix of 57:43. Retail lending recovered 9.7% QoQ onn credit card advances, while credit cost for the credit card segment is expected to be 9-10% impacted by COVID-19. The Bank's GNPA/ NNPA stands strong at 3.34%/ 1.38% (vs. 3.45%/1.65% in Q1FY21), and a healthy PCR of 74.8% (70.5% in Q1FY21). Total Capital Adequacy ratio was recorded at 16.5% and Tier 1 ratio at 15.1%, largely unchanged compared to previous quarter.

### Key call highlights

- Restructuring requests are negligible as of now. Small segment of MFI loans may be offered restructuring, but the plan is still in the nascent stage.
- Overall Collection efficiency for credit card and LAP stands at 94% and 93%, respectively in comparison to pre-COVID levels.
- RBL will be raising Rs. 1,566cr in 3QFY21, leading to increase in CARR to 18.67% and CET1 to 17.4%, with Barings Asia's stake increasing to 9.45% (from 5.0%).

### Outlook & Valuation

Impacts of the credit risk owing to the pandemic has already been incorporated at the current share price level. Hence the valuation looks justified on the back of gradual recovery and the recent capital infusion. However given the uncertainties in the credit market, we remain cautious and maintain our rating as HOLD on the stock with a revised target price of Rs. 230 based on 1.0x FY22E P/BV

Standalone (cr)	FY20A	FY21E	FY22E
Net Interest Income	3,630	4,024	4,601
Growth (%)	42.9	10.9	14.3
NIM (%)	4.9	5.2	5.4
Pre-provision Profit	2,714	3,027	3,489
Net Profit	506	545	1,207
Growth (%)	(41.7)	7.9	121.3
Adj. EPS	11.1	9.9	20.2
Growth (%)	(44.6)	(11.3)	104.9
BVPS	232.3	228.0	230.1
P/E	12.2	23.0	11.2
P/B	0.6	1.0	1.0
P/ABV	0.6	1.0	1.0
ROE (%)	5.6	4.7	9.1
ROA (%)	0.6	0.6	1.2

## Quarterly Financials (Standalone)

### Profit & Loss Account

	Q2FY21	Q2FY20	YoY Growth %	Q1FY21	QoQ Growth %	H1FY21	H1FY20	YoY Growth %
Interest Income	2,077	2,126	(2.3)	2,235	(7.1)	4,312	4,149	3.9
Interest Expense	1,145	1,257	(8.9)	1,194	(4.1)	2,339	2,463	(5.0)
<b>Net Interest Income (NII)</b>	<b>932</b>	<b>869</b>	<b>7.3</b>	<b>1,041</b>	<b>(10.5)</b>	<b>1,973</b>	<b>1,686</b>	<b>17.0</b>
Non-Interest Income	456	442	3.3	333	36.9	790	923	(14.4)
<b>Total Net Income</b>	<b>1,388</b>	<b>1,310</b>	<b>6.0</b>	<b>1,375</b>	<b>1.0</b>	<b>2,763</b>	<b>2,609</b>	<b>5.9</b>
<b>Total Income</b>	<b>2,533</b>	<b>2,568</b>	<b>(1.3)</b>	<b>2,568</b>	<b>(1.4)</b>	<b>5,102</b>	<b>5,072</b>	<b>0.6</b>
Operating Expenses	669	667	0.2	685	(2.4)	1,353	1,363	(0.7)
<b>Total Expenditure</b>	<b>1,814</b>	<b>1,925</b>	<b>(5.8)</b>	<b>1,879</b>	<b>(3.5)</b>	<b>3,692</b>	<b>3,826</b>	<b>(3.5)</b>
<b>Pre-Provision profit</b>	<b>720</b>	<b>643</b>	<b>11.9</b>	<b>690</b>	<b>4.4</b>	<b>1,409</b>	<b>1,246</b>	<b>13.2</b>
Provisions	526	541	(2.8)	500	5.1	1,026	738	39.1
<b>Profit Before Tax</b>	<b>194</b>	<b>103</b>	<b>89.4</b>	<b>190</b>	<b>2.4</b>	<b>384</b>	<b>508</b>	<b>(24.5)</b>
Tax	50	48	3.8	48	3.5	98	187	(47.3)
<b>Net Profit</b>	<b>144</b>	<b>54</b>	<b>165.4</b>	<b>141</b>	<b>2.1</b>	<b>285</b>	<b>321</b>	<b>(11.2)</b>
EPS - Diluted (Rs.)	2.8	1.3	124.6	2.8	2.2	5.6	7.4	(24.0)

### Change in Estimates

	Old Estimates		New Estimates		Change %	
Year / Rs. cr	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Net Interest Income (NII)	3,824	4,250	4,024	4,601	5.2	8.2
Net Interest Margin (%)	4.8	4.9	5.2	5.4	40bps	52bps
Pre-Provisioning Profit	2,888	3,077	3,027	3,489	4.8	13.4
Net Profit	437	961	545	1,207	24.8	25.6
EPS (Rs.)	8.6	18.9	9.9	20.2	14.5	6.7

## PROFIT & LOSS

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Interest Income	4,508	6,301	8,514	8,925	10,160
Interest Expense	2,741	3,761	4,885	4,902	5,559
<b>Net Int. Income</b>	<b>1,766</b>	<b>2,539</b>	<b>3,630</b>	<b>4,024</b>	<b>4,601</b>
% Change	44.6	43.8	42.9	10.9	14.3
Non-Int. Income	1,068	1,442	1,910	2,101	2,269
<b>Net Income</b>	<b>2,834</b>	<b>3,982</b>	<b>5,540</b>	<b>6,125</b>	<b>6,870</b>
<b>Total Income</b>	<b>5,576</b>	<b>7,743</b>	<b>10,425</b>	<b>11,027</b>	<b>12,429</b>
Operating Exp.	1,503	2,042	2,826	3,098	3,381
<b>Total Exp.</b>	<b>4,245</b>	<b>5,803</b>	<b>7,710</b>	<b>8,000</b>	<b>8,940</b>
<b>Pre-Prov. Profit</b>	<b>1,331</b>	<b>1,940</b>	<b>2,714</b>	<b>3,027</b>	<b>3,489</b>
Provisions	365	641	1,962	2,298	1,876
<b>PBT</b>	<b>967</b>	<b>1,299</b>	<b>753</b>	<b>729</b>	<b>1,613</b>
Tax	331	432	247	183	406
Tax Rate (%)	34.3	33.3	32.8	25.2	25.2
<b>Net Profit</b>	<b>635</b>	<b>867</b>	<b>506</b>	<b>545</b>	<b>1,207</b>
% Change	42.4	36.5	(41.7)	7.9	121.3
No. of Shares (cr)	42	43	46	55	60
Adj. EPS (Rs.)	15.2	20.0	11.1	9.9	20.2
% Change	28.6	32.1	(44.6)	(11.3)	104.9
DPS (Rs.)	2.1	2.7	1.5	1.3	2.7

## BALANCE SHEET

Y.E March (Rs. cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash & Balances	4,284	6,602	8,857	12,526	10,324
Investments	15,447	16,840	18,150	20,873	24,003
Advances	40,268	54,308	58,019	56,859	68,230
Fixed Assets	334	402	470	479	623
Other Assets	1,517	2,206	3,482	4,179	5,014
<b>Total Assets</b>	<b>61,851</b>	<b>80,359</b>	<b>88,978</b>	<b>94,915</b>	<b>108,195</b>
Capital	420	427	509	597	597
Reserves & Surplus	6,264	7,121	10,074	12,029	13,162
Deposits	43,902	58,394	57,812	64,749	74,462
Borrowings	9,261	11,832	17,007	13,606	15,646
Other Liabilities	2,003	2,585	3,576	3,934	4,327
<b>Total Liabilities</b>	<b>61,851</b>	<b>80,359</b>	<b>88,978</b>	<b>94,915</b>	<b>108,195</b>
<b>BVPS (Rs.)</b>	<b>159.7</b>	<b>174.5</b>	<b>232.3</b>	<b>228.0</b>	<b>230.1</b>
% Change	39.2	9.2	33.2	(1.8)	0.9

## RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
<b>Valuation</b>					
P/E (x)	35.4	33.9	12.2	17.7	8.6
P/BV (x)	3.4	3.9	0.6	0.8	0.8
Div. Yield (%)	0.4	0.4	1.1	0.8	1.6
<b>Profitab. &amp; Return (%)</b>					
Yield on Advances	9.8	10.7	12.3	12.3	12.5
Cost of Deposits	5.7	6.1	6.7	6.4	6.6
Spread	4.1	4.6	5.6	5.9	5.9
NIM	3.6	4.0	4.9	5.2	5.4
ROE	11.5	12.2	5.6	4.7	9.1
ROA	1.1	1.2	0.6	0.6	1.2
<b>Capital Adequacy (%)</b>					
CAR	15.3	13.5	16.4	18.3	15.6
Tier I	13.6	12.1	15.3	17.2	14.6
Tier II	1.7	1.4	1.1	1.0	1.0
<b>Asset Quality (%)</b>					
GNPA	1.4	1.4	3.7	3.4	2.9
NNPA	0.8	0.7	2.0	1.4	0.9
<b>Operating Ratios (%)</b>					
Credit/ Deposit	91.7	93.0	100.4	87.8	91.6
Cost/ Income	53.0	51.3	51.0	50.6	49.2
CASA	24.3	25.0	29.6	27.8	29.0

## Recommendation Summary



Dates	Rating	Target
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
26-Nov-20	HOLD	230

## 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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