

RBL Bank

Retail proforma slippages springing up in a hurry

RBK reported an in-line NII performance on the back of sequentially softer NIMs stemming from interest reversals. Operating profit was better-than-expected, led by stronger fee momentum, albeit with a continued over-dependence on credit cards (66% of fees during 3Q). Pro forma GNPA's spiked to ~4.6% in 3Q, despite aggressive write-offs. Over the past 18 months, RBK has seen asset quality slips across its portfolio. Our broader concerns on underwriting stem from a growing concentration risk with the loan mix skewed towards high-risk, high-RoA segments. We trim our FY21E earnings by ~8% and reiterate our REDUCE stance with a target price of Rs 214.

- Slippages spike, led by retail:** On a pro forma basis, RBK's slippages rose to ~Rs 14.7bn (9MFY21: ~3.4% annualised), ~90% contributed by its non-wholesale assets. Pro forma GNPLs rose to ~4.6% despite aggressive write-offs during the quarter (~39% of opening pro forma GNPLs). Segmental pro forma stress differed with micro-credit (2.6%) significantly lower than credit cards (5.7%), other non-wholesale (4.5%) and wholesale (4.5%) segments. We have cautiously raised our end-FY21E GNPL estimates to 4.9%.
- Provisions jump, to remain elevated:** Non-tax provisions remained elevated at Rs 6.1bn (-4.2% annualised), ~20% higher than our estimates. RBK drew down on close to half its contingency buffer (remaining stock of ~Rs 2.8bn, 0.5% of loans), propping up the pro forma PCR to ~70%. The management expects the current provisioning run rate to continue into 4QFY21. We raise our LLP estimates to ~3% over FY21-23E, from 2.7% earlier.
- Granular liability traction continues:** RBK's deposit momentum surprised positively with relatively strong traction in CASA (+23.5/3.8%) and deposits from retail and small business customers (+24/10%, 36.3% of total deposits). The bank's ability to sustain this granular deposit traction will be key.

Financial summary

(Rs mn)	3Q FY21	3Q FY20	YoY (%)	2Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY23E
NII	9,082	9,227	-1.6%	9,321	-2.6%	36,296	38,038	43,627	51,098
PPOP	8,048	7,322	9.9%	7,198	11.8%	27,516	29,573	31,172	36,460
PAT	1,471	700	110.2%	1,442	2.0%	5,057	4,604	9,859	14,213
EPS (Rs)	2.5	1.4	78.8%	2.8	-13.1%	9.9	7.7	16.5	23.8
ROAE (%)						5.6	4.0	7.6	10.1
ROAA (%)						0.60	0.49	0.93	1.16
ABVPS (Rs)						184.6	200.2	210.3	232.0
P/ABV (x)						1.16	1.07	1.02	0.93
P/E (x)						21.6	27.9	13.0	9.0

Change in estimates

Rs bn	FY21E			FY22E			FY23E		
	Old	New	Chg	Old	New	Chg	Old	New	Chg
Loan	6,14,712	5,94,788	-3.2%	6,93,945	6,73,743	-2.9%	8,19,997	7,96,018	-2.9%
NIM (%)	4.5	4.5	7 bps	4.6	4.5	-4 bps	4.6	4.6	-5 bps
NII	37,260	38,038	2.1%	43,904	43,627	-0.6%	52,145	51,098	-2.0%
PPOP	27,455	29,573	7.7%	31,912	31,172	-2.3%	38,067	36,460	-4.2%
PAT	4,990	4,604	-7.7%	10,723	9,859	-8.1%	15,569	14,213	-8.7%
ABVPS (Rs)	197.1	200.2	1.6%	212.4	210.3	-0.9%	235.7	232.0	-1.6%

Source: Bank, HSIE Research

REDUCE

CMP (as on 28 Jan 2021)	Rs 215
Target Price	Rs 214
NIFTY	13,818

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 231	Rs 214
EPS %	FY21E	FY22E
	-7.7%	-8.1%

KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	598
MCap (Rs bn) / (\$ mn)	129/1,760
6m avg traded value (Rs mn)	4,295
52 Week high / low	Rs 347/102

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	22.6	18.2	(36.7)
Relative (%)	5.2	(3.5)	(51.1)

SHAREHOLDING PATTERN (%)

	Sept-20	Dec-20
Promoters	-	-
FIs & Local MFs	20.4	23.4
FPIs	40.4	39.2
Public & Others	39.2	37.4

Pledged Shares

Source : BSE

Pledged shares as % of total shares

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