

# RBL Bank Limited

BUY

CMP Rs215

Target Rs265

Upside 23.2%

## Capping of Earnings challenges to prevail in near term, but recovery can be sharp thereafter; Retain BUY with 12m PT of Rs265

Growth and credit cost trajectory could remain challenging in next two quarters, as the bank recognizes residual pain in Credit Cards (though overall stress in-line with earlier guidance) and steps-up provision on MFI portfolio while pursuing calibrated growth. Further, core PCR at 45% stands low and requires material augmentation; and the Covid contingency buffer has been reduced to 50-60 bps of loan book after utilization in Q3. However, both Cards and MFI businesses, where the bank has a significant portfolio with a sizeable market position, typically have a sharp/quick normalization curve and thus can start uplifting loan growth and earnings after a couple of quarters. Penciling this curve in our estimates, we believe that RBL Bank can deliver respectable RoA from FY22 itself and earnings can jump by more than 100%. Corporate portfolio has surprisingly been resilient, in particular the BBB & Below rated portfolio which has not exhibited any meaningful stress from Covid. The key risk to our estimates remains protracted challenges in MFI portfolio, especially an Assam-like issue in West Bengal. RBL Bank currently trades at 0.9x FY23 P/ABV, and we retain BUY rating with revised 12m TP of Rs265.

## Management Commentary

### Credit cards

- ✓ Credit Cards business has bounced back well and new customer acquisition is now at pre-Covid level.
- ✓ The bank has gained market share in terms of cards-in-force – still operating with tightened credit filters.
- ✓ Spend per active card better than pre-Covid times.
- ✓ Restructuring at 4% in terms of value, representing about 53000 customers.
- ✓ Management had earlier guided for 10% credit cost for the year – tracking well on this, as credit cost in the first nine months is at 7.4%.
- ✓ Bounce rates and collection efficiency has normalized – thus stress is confined to the identified pool.
- ✓ Proforma GNPL at 5.7% - charge-off happens after 180 dpd, thus portfolio NPL levels will come-off after a couple of quarters – and credit cost will revert to the annualized rate of 5-6%.
- ✓ 7% of the card customers are SA customers of the bank also.

## Exhibit 1: Financial Summary

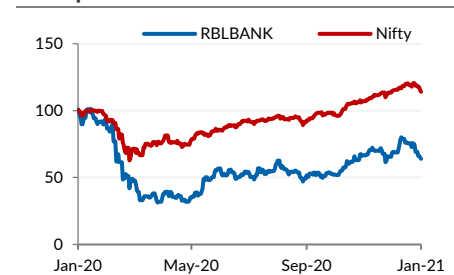
Y/e 31 Mar (Rs mn)	FY20	FY21E	FY22E	FY23E
Operating income	55,399	59,202	71,625	88,267
PPOP	27,516	30,483	35,152	43,588
Net profit	5,057	5,777	12,082	16,418
yoy growth (%)	(41.7)	14.2	109.1	35.9
EPS (Rs)	9.9	9.7	20.2	27.5
Adj. BVPS (Rs)	184.7	186.1	207.3	230.1
P/E (x)	21.6	22.2	10.6	7.8
P/adj.BV (x)	1.2	1.2	1.0	0.9
ROE (%)	5.6	5.0	9.1	11.3
ROA (%)	0.6	0.6	1.1	1.3

Source: Company, YES Sec – Research

### Stock data (as on January 28, 2021)

Nifty	13,818
52 Week h/l (Rs)	347 / 102
Market cap (Rs/USD mn)	128547 / 1760
Outstanding Shares (mn)	598
6m Avg t/o (Rs mn):	4,082
Div yield (%):	0.7
Bloomberg code:	RBK IN
NSE code:	RBLBANK

### Stock performance



	1M	3M	1Y
Absolute return	-6.1%	22.6%	-36.0%

### Shareholding pattern

Promoter	0.0%
FII+DII	49.3%
Others	50.2%

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60%+ customers onboarded are from BAF partnership and they are credit tested

## Micro Banking

- ✓ Collection Efficiency stable at 92% - most large states near 90% - Assam at 60%
- ✓ Has been running down the Assam portfolio – had stopped disbursement from Nov 2019
- ✓ In the state of West Bengal, the bank is disbursing only to existing customers
- ✓ Many customers are erratic in repayments - only 2% customers have not paid anything since the end of moratorium – flow into 90dpd+ is slower
- ✓ The new book generated from June which is at Rs22bn has a collection efficiency of 99%
- ✓ Disbursing new loans only in areas where collection is better
- ✓ Proforma GNPL at 2.7% - this will increase to 5-5.5% by March 2021 – the credit cost is expected at 2.5% for the year (gross of FLDG) - exposure to problematic states/pockets much lower
- ✓ In MFI, the management remains cautious but expects normalcy from Q4 FY21

## Wholesale & SME

- ✓ Wholesale portfolio has stabilized and the bank will start growing it soon - focus is on better-rated corporates
- ✓ BBB & Below has not shown any adverse movement
- ✓ Wholesale portfolio proforma GNPL at 4%
- ✓ On the retail MSME side, new business generation was slowed down deliberately
- ✓ BIL is a secured loan where LTV is conservative

## Other Important

- ✓ Rs13bn of the Rs14.7bn slippages in Q3 were from the retail segment
- ✓ Q3 write-offs mainly in the corporate segment – Q4 will see write-offs related to Retail and MFI segments
- ✓ Approved restructuring at Rs5.5bn was primarily in retail segment – it will be within 1.5% of advances by end FY21
- ✓ Over the next few months, the NIM and Fee trajectory would revert to pre-Covid run-rate
- ✓ Growth in granular deposits will continue - cost of funds will continue to decline
- ✓ Utilized around Rs2.5-3bn worth of the contingency provision buffer during the quarter – the unutilized balance is of similar quantum Growth

## Exhibit 2: Result Table

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Total Interest Income	19,799	20,773	(4.7)	21,573	(8.2)
Interest expended	(10,717)	(11,452)	(6.4)	(12,347)	(13.2)
Net Interest Income	9,082	9,321	(2.6)	9,227	(1.6)
Other income	5,799	4,562	27.1	4,870	19.1
Total Income	14,880	13,883	7.2	14,096	5.6
Operating expenses	(6,832)	(6,685)	2.2	(6,775)	0.9
PPOP	8,048	7,198	11.8	7,322	9.9
Provisions	(6,098)	(5,256)	16.0	(6,383)	(4.5)
PBT	1,951	1,942	0.4	939	107.8
Tax	(480)	(500)	(4.1)	(239)	100.5
PAT	1,471	1,442	2.0	700	110.2

Source: Company, YES Sec - Research

## Exhibit 3: Business Data

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Advances	564,440	561,620	0.5	596,350	(5.4)
C&IB	178,120	178,150	(0.0)	233,270	(23.6)
CB	56,940	62,040	(8.2)	80,300	(29.1)
Retail	329,380	242,070	36.1	282,780	16.5
Deposits	671,840	645,061	4.2	629,070	6.8
CASA	208,670	200,640	4.0	168,550	23.8
Borrowings	120,700	132,558	(8.9)	148,930	(19.0)
Total Assets	964,380	933,465	3.3	914,570	5.4
RWA	718,180	697,990	2.9	681,580	5.4

Source: Company, YES Sec - Research

## Exhibit 4: Key Ratios

(%)	Q3 FY21	Q2 FY21	chg qoq	Q3 FY20	chg yoy
NIM	4.2	4.3	(0.1)	4.6	(0.4)
Yield on Advances	11.5	12.3	(0.8)	12.3	(0.8)
Cost of Deposits	5.7	6.0	(0.3)	6.7	(1.0)
CASA	31.1	31.1	(0.0)	26.8	4.3
C/D	84.0	87.1	(3.1)	94.8	(10.8)
Non-interest income	39.0	32.9	6.1	34.5	4.4
Cost to Income	45.9	48.2	(2.2)	48.1	(2.1)
Prov./Avg. Advances (Ann)	4.3	3.7	0.6	4.3	0.0
RoE	4.8	5.2	(0.4)	3.1	1.7
RoA	0.6	0.6	0.0	0.3	0.3
CAR	17.9	16.5	1.4	15.7	2.2
Gross NPA	1.8	3.3	(1.5)	3.3	(1.5)
Net NPA	0.7	1.4	(0.7)	2.1	(1.4)

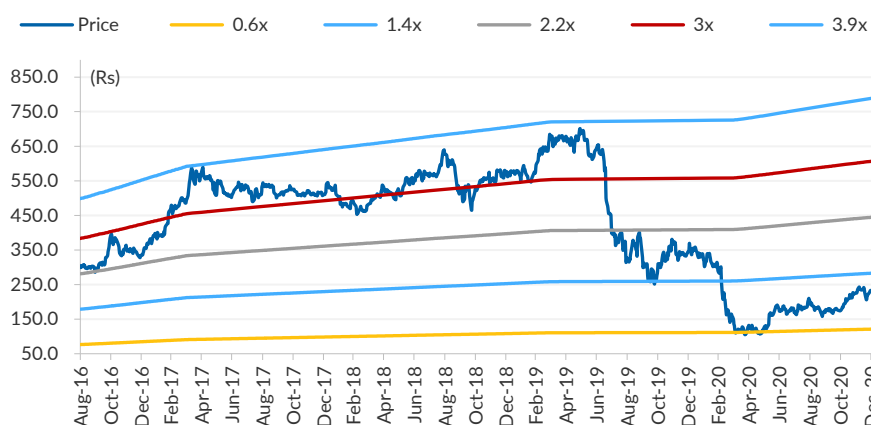
Source: Company, YES Sec - Research

## Exhibit 5: Core fee income - break-up

(Rs mn)	Q3 FY21	Q2 FY21	% qoq	Q3 FY20	% yoy
Core Fees	4,970	3,620	37.3	4,740	4.9
Distribution + CC	3,380	2,100	61.0	2,844	18.8
Proc. Fees	398	326	22.0	521	(23.7)
Gen. Banking	447	471	(5.0)	569	(21.4)
Trade/Others	348	362	(3.9)	427	(18.4)
FX	348	362	(3.9)	427	(18.4)

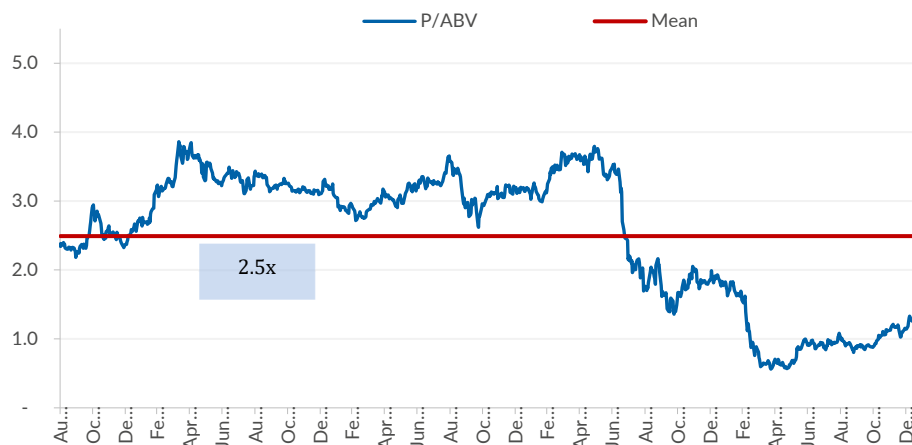
Source: Company, YES Sec - Research

## Exhibit 6: 1-year rolling P/ABV band



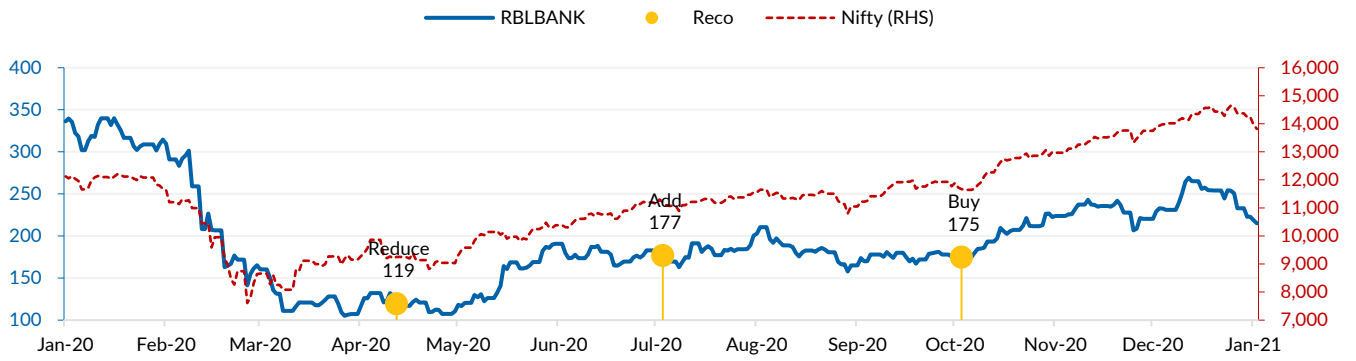
Source: Company, YES Sec - Research

## Exhibit 7: 1-yr rolling P/ABV vis-a-vis the mean



Source: Company, YES Sec - Research

## Recommendation Tracker



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