

# RBL Bank

BUY

CMP Rs182

Target Rs235

Upside 29.0%

## Result Highlights

- ✓ RBK's earnings stayed under pressure in Q4 FY21, impacted by lower NII (depressed NIM) and higher provisioning.
- ✓ Advances grew by 4% qoq, after having de-grown in 9m FY21, aided by healthy growth in corporate portfolio and strong traction in microfinance (12% of Adv.), housing loans and agri lending in retail segment.
- ✓ Credit cards (21%) and business loans (18%) portfolios were flat. Higher interest reversals, refund of interest on interest and portfolio mix shift (by products and risk rating) were key NIM headwinds in Q4; however, there was no sharp fall in margin owing to a significant correction in cost of funds due to reduction in rates and better CASA levels.
- ✓ On expected lines, NPL addition was elevated in Q4 (annualized 10% slippage ratio) and bulk of it came from retail products (mainly Cards, MFI, BLs and PLs). Higher reductions and write-offs ensured a decline in Gross NPLs and accelerated provisioning pulled down Net NPLs on sequential basis (core PCR was lifted to 52%).

**Our view - Pressure on profitability to persist for a while:** Residual impact (provisioning/write-off) of the first wave and incremental stress (though limited this time) from second wave of the pandemic is likely to sustain pressure on growth and profitability in the near term.

The bank is not carrying any contingency provisions like peers; however, it is well capitalized with Tier-1 ratio of 16.6%. If the pandemic is short-lived, then H2 FY22 can be starkly different from H1 given higher share of high beta businesses in RBK.

We believe undemanding valuation (post recent sharp price correction) at 0.8x FY23 P/ABV discounts a non-exciting near-term but does not capture a certain recovery in growth and RoA over the medium term. We retain BUY, but have lowered 12m PT to Rs235.

## Exhibit 1: Result table

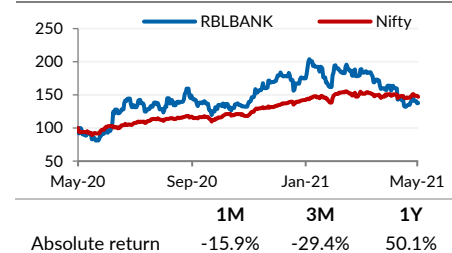
(Rs mn)	Q4 FY21	Q3 FY21	% yoy	Q4 FY20	% qoq
Total Interest Income	19,224	19,799	(2.9)	22,082	(12.9)
Interest expended	(10,163)	(10,717)	(5.2)	(11,873)	(14.4)
Net Interest Income	9,061	9,082	(0.2)	10,210	(11.3)
Other income	6,884	5,799	18.7	5,005	37.5
Total Income	15,945	14,880	7.2	15,215	4.8
Operating expenses	(7,179)	(6,832)	5.1	(7,696)	(6.7)
PPOP	8,766	8,048	8.9	7,519	16.6
Provisions	(7,663)	(6,098)	25.7	(6,012)	27.5
PBT	1,103	1,951	(43.4)	1,508	(26.8)
Tax	(349)	(480)	(27.2)	(364)	(4.0)
PAT	754	1,471	(48.7)	1,144	(34.1)

Source: Company, YES Sec - Research

## Stock data (as on May 04, 2021)

Sensex:	14,497
52 Week h/l (Rs)	274 / 106
Market cap (Rs/USD mn)	108690 / 1472
Outstanding Shares	598
6m Avg t/o (Rs mn):	4,089
Div yield (%):	-
Bloomberg code:	RBK IN
NSE code:	RBLBANK

## Stock performance



## Shareholding pattern

Promoter	0.0%
FII+DII	49.3%
Others	50.2%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	235	265

## Financial Summary

	FY22E	FY23E	FY24E
Op. income	68,090	81,692	100,311
PPOP	35,035	42,026	51,522
Net profit	11,017	17,132	20,722
Growth (%)	117.0	55.5	21.0
EPS (Rs)	18.4	28.6	34.7
ABVPS (Rs)	208.3	234.2	265.0
P/E (x)	9.9	6.4	5.3
P/adj.BV (x)	0.9	0.8	0.7
ROA (%)	1.0	1.3	1.3
ROE (%)	8.4	11.9	12.8
CAR (%)	16.5	15.4	14.3

## Δ in earnings estimates

	FY22e	FY23e	FY24e
EPS (New)	18.4	28.6	34.7
EPS (Old)	20.2	27.5	-
% change	-8.9%	4.0%	-

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## CON-CALL HIGHLIGHTS

- ✓ 80% of FY21 slippages were in retail segment owing to Covid impact – of the overall Rs31bn slippages during the year, ~Rs13bn were in Cards, ~Rs4bn in Microfinance, Rs7.5-8bn in other retail products and ~Rs6bn in wholesale segment.
- ✓ During Q4, recoveries were largely from Retail and Upgrades from both Retail and Wholesale.
- ✓ FY21 credit cost at 4.1% - bank did accelerated provisioning in Q4 which included 100% provision on 180+ dpd portfolio in Cards, additional provisions in Microfinance portfolio despite 45% of portfolio covered by FLDG and 50% provisions on other retail slippages.
- ✓ Restructuring at Rs9.3bn (wholesale Rs3.5bn and Retail Rs5.8bn), at 1.6% of advances - ECLGS disbursements have been Rs12.1bn (Wholesale Rs6.8bn and Retail Rs5.3bn).
- ✓ Credit Cards asset quality: GNPL at 5.5% - Restructuring at 2.2% (Rs2.7bn, of which Rs0.5bn is 30+ dpd) - FY21 credit cost at 10.4% (in-line with guidance).
- ✓ Microfinance asset quality: GNPL at 3.7% and PAR 30 at 7% - collection efficiency was 97% in Q4 - post-pandemic portfolio at 48% of the book and having 99% collection efficiency - predominantly, monthly collection model.
- ✓ Microfinance growth: portfolio grew 6% qoq in Q4 despite low or no disbursements in the states of Assam, WB and MH – in the light of second wave, the bank would remain cautious on growth.
- ✓ Business Loans portfolio quality: collection efficiency reverted to pre-Covid level in Q4 - collection on current/0 dpd book at 99%+ - restructuring Rs2.8bn (2% of portfolio), of which only Rs100mn in 30-90 dpd - recoveries to improve with lifting of NPL stay by SC.
- ✓ Credit Cards and Microfinance businesses were profitable in FY21 despite heightened Covid-related stress.
- ✓ Higher fee income in Q4 was also on account of recovery of written-off wholesale (lumpy) and retail (granular) accounts.
- ✓ Incremental lending in corporate segment over past 18 months has been to A and above rating.
- ✓ Management hopeful of healthy recovery in FY22 from corporate NPLs recognized during FY20.
- ✓ Bank is well-positioned for healthy growth in FY22 - it would further improve core PCR to 60%+ in FY22.
- ✓ In Credit Cards business, the bank expects credit cost to normalize to pre-pandemic level (5-5.5%) from H2 FY22.
- ✓ Minimal loss expected in stressed BL portfolio – avg. LTV of this pool stands at 65% and the collateral has enough value.
- ✓ NIM in FY22 could normalize to 4.75%+ levels - expected 40-50 bps reduction in Cost of Deposits through FY22.
- ✓ FY22 will not be a normalized credit cost year, as Q1 will have the residual credit cost of the first wave in unsecured products.
- ✓ Collection efficiency has witnessed a drop of 2-3% in Cards and MFI portfolios in the second half of April.

- ✓ Second wave impact on asset quality expected to be much lower due to better quality acquisitions in FY21 (bank had tightened credit filters) and weaker accounts having already slipped.
- ✓ The bank will be introducing secured products like 2w, gold loans, etc. to the Microfinance segment customers - will be building tractor finance franchise in rural areas.
- ✓ In two years, the share of unsecured loans in advances could fall by 7-10% - bank will stick to its strengths like Cards and MFI, but will stop growth of unsecured BL, PL, SME/Wholesale, etc.- also secured assets will see a much faster growth on a lower base (BL, affordable housing, gold loans, etc.).

## Exhibit 2: Business Data

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Advances	586,230	564,440	3.9	580,190	1.0
C&IB	183,230	178,120	2.9	198,460	(7.7)
CB	59,100	56,940	3.8	76,110	(22.3)
Retail	343,900	329,380	4.4	305,620	12.5
Deposits	731,213	671,840	8.8	578,122	26.5
CASA	232,640	208,670	11.5	171,160	35.9
Borrowings	112,259	120,700	(7.0)	170,067	(34.0)
Total Assets	1,006,506	964,380	4.4	889,778	13.1
RWA	739,480	718,180	3.0	673,260	9.8

Source: Company, YES Sec - Research

## Exhibit 3: Key Ratios

(%)	Q4 FY21	Q3 FY21	chg qoq	Q4 FY20	chg yoy
NIM	4.2	4.2	(0.0)	4.9	(0.8)
Yield on Advances	11.2	11.5	(0.3)	12.5	(1.3)
Cost of Deposits	5.5	5.7	(0.3)	6.4	(1.0)
CASA	31.8	31.1	0.8	29.6	2.2
C/D	80.2	84.0	(3.8)	100.4	(20.2)
Non-interest income	43.2	39.0	4.2	32.9	10.3
Cost to Income	45.0	45.9	(0.9)	50.6	(5.6)
Prov./Avg. Advances (Ann)	5.3	4.3	1.0	4.1	1.2
RoE	2.4	4.8	(2.4)	4.3	(1.9)
RoA	0.3	0.6	(0.3)	0.5	(0.2)
CAR	17.5	17.9	(0.4)	16.5	1.1
Gross NPA	4.3	1.8	2.5	3.6	0.7
Net NPA	2.1	0.7	1.4	2.1	0.1

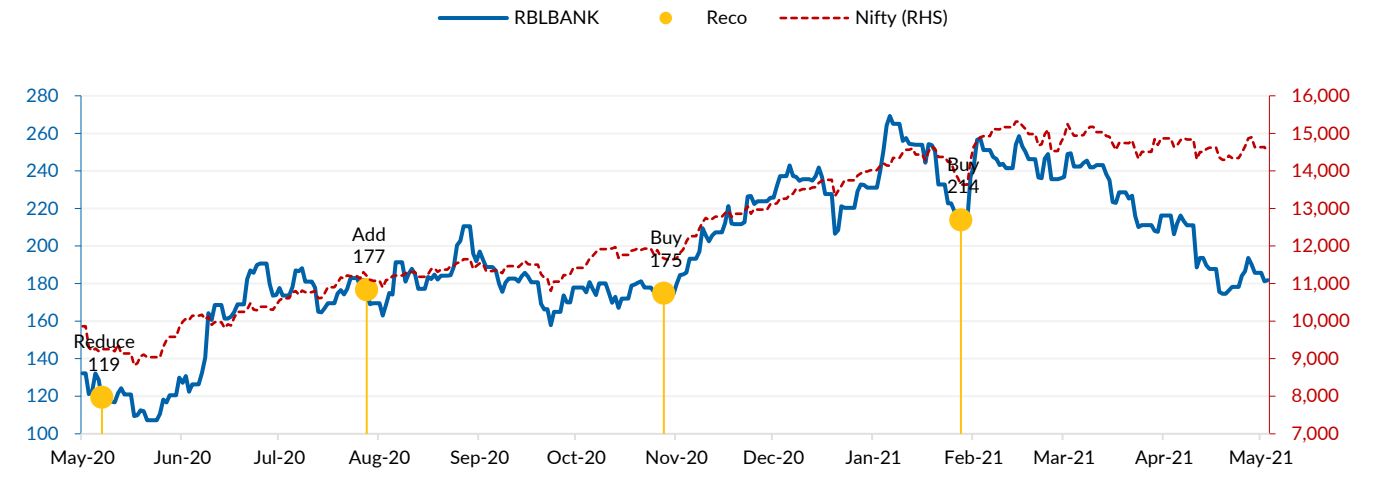
Source: Company, YES Sec - Research

## Exhibit 4: Core fee income - break-up

(Rs mn)	Q4 FY21	Q3 FY21	% qoq	Q4 FY20	% yoy
Core Fees	6,600	4,970	32.8	4,700	40.4
Distribution & CC.	3,498	3,380	3.5	2,820	24.0
Proc. Fees	462	398	16.2	564	(18.1)
Gen. Banking	660	447	47.6	564	17.0
Trade/Others	1,386	348	298.4	329	321.3
Forex	528	348	51.8	423	24.8

Source: Company, YES Sec - Research

## Recommendation Tracker



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