Equity Research
May 5, 2021
BSE Sensex: 48254

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Q4FY21 result review and TP change

Banking

Target price Rs190

Earnings revision

(%)	FY22E	FY23E
PAT	↓ 5	↓ 6

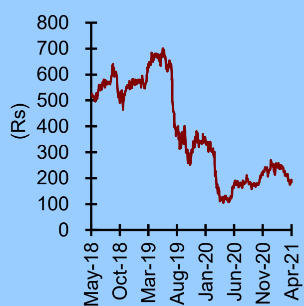
Target price revision
Rs190 from Rs210

Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	0.0	0.0	0.0
Institutional investors	49.3	57.1	57.0
MFs and other	12.2	12.5	14.2
FIs/Banks	1.0	0.8	0.9
Insurance Cos.	3.5	6.7	6.7
FIIs	27.8	37.1	35.2
Others	50.7	42.9	43.0

Source: BSE

Price chart



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INDIA

RBL Bank

HOLD
Maintain

Modest return profile in the interim; transitioning underway

Rs182

RBL Bank's Q4FY21 earnings reflect the anticipated asset quality stress: 1) slippages of Rs14.4bn (cumulative run-rate of 5.4% in FY21) and restructuring of 1.4%; 2) aggressive write-offs of Rs6.7bn and recoveries/upgrades of Rs7.8bn contained GNPLs below Q3FY21 proforma levels at 4.34%; 3) credit cost elevated upward of 5% (accelerated provisioning on unsecured pool). Nonetheless, sharp spike in fee income, stable NIMs and contained cost supported operating profit growth. Management's focus is on reducing inherent business risk through granularity in the portfolio, scaling up secured lending segments, and fortifying the balance sheet through provisioning. Through this transitioning, the bank will take more quarters to normalise its earnings trajectory and we revised our earnings by 5-6% for FY22E/FY23E. Also modest RoA/RoE in the interim will cap valuation at 0.75x FY23 ABV. Maintain HOLD with a revised target price of Rs 190 (earlier: Rs 210). Key risks: 1) credit card / wholesale businesses exhibiting better stability and quality; 2) premium deposit rate weighing on NIMs.

- **Credit card, micro banking and SME hurling more than anticipated stress:** Stress accretion was anticipated to be higher for RBL – given the vulnerability of the pool (credit card, MFI, MSME, etc). True to this, slippages of Rs14.4bn in Q4FY21 made RBL end the year with full-year slippages at 5.4%. Of Rs31bn of FY21 slippages, Rs13bn accrued from credit card, Rs3.9bn from MFIs, Rs7.5bn-8.0bn from SMEs, and the balance Rs6bn from wholesale segment. Upgrades of Rs3.2bn in Q4FY21 pertained to both wholesale as well as retail segment: an old corporate NPA got upgraded due to change in management control. Recoveries of Rs4.5bn in Q4FY21 were largely towards retail portfolio. RBL has also written-off aggressively Rs14.5bn in H2FY2). Gross NPA declined to 4.34% *vs* proforma 4.57% in Q3FY21 and, with coverage of 72%, net NPA ratio settled at 2.12% *vs* 2.52% in proforma Q3FY21. Excluding the write-offs, coverage was 52%, which the bank plans to increase to 60%. RBL restructured Rs9.27bn of advances (1.4%) – well within the expected range. Of this, Rs3.47bn was in wholesale and Rs5.8bn in retail.
- **No new contingency buffer is discomforting; credit cost normalisation some time away:** Bank has accelerated provisioning on credit card, MFI and other unsecured retail against the existing contingency buffer. With this, credit cost during the quarter came in higher at Rs7.7bn taking cumulative credit cost for FY21 upward of 500bps. Of the FY21 credit of Rs24bn, provisioning in credit card was Rs10.7bn, MFI Rs1.8bn, other retail/SME Rs3bn and the balance was in wholesale segment. While the management sounded confident of corporate banking portfolio being adequately provided, credit cost with resurgence of covid 2.0 can keep credit cost elevated in H1FY22. Getting into FY22E/FY23E, we are building-in credit cost of 2.9%/2.2%, which suggests the bank is still some time away from stabilisation.

Market Cap	Rs109bn/US$1.5bn
Reuters/Bloomberg	RATB.BO / RBK IN
Shares Outstanding (mn)	598.0
52-week Range (Rs)	269/107
Free Float (%)	100.0
FII (%)	35.2
Daily Volume (US$'000)	58,351
Absolute Return 3m (%)	(29.4)
Absolute Return 12m (%)	50.1
Sensex Return 3m (%)	(4.5)
Sensex Return 12m (%)	53.8

Year to Mar	FY20	FY21P	FY22E	FY23E
NII (Rs bn)	36.3	37.9	42.2	48.0
Net Profit (Rs bn)	5.1	5.1	11.6	17.3
EPS (Rs)	9.9	8.5	19.4	29.0
% Change YoY	-51	-15	128	50
P/E (x)	18	22	9	6
P/BV (x)	0.9	0.9	0.8	0.7
P/ABV (x)	1.0	0.9	0.9	0.8
GNPA (%)	3.6	4.3	4.1	4.0
RoA (%)	0.6	0.5	1.1	1.5
RoE (%)	5.6	4.4	8.8	12.0

- **NIMs were flat QoQ at 4.17%.** In FY21, there was almost 50bps impact of interest reversal on slippages. RBL expects NIMs to normalise in FY22 to 4.75% levels as excess liquidity will be deployed and reversal on incremental stress would be low. Despite scaling up the retail segment, the focused products are relatively higher yielding including credit cards, MFI as well other retail products like affordable housing, gold lending generating yields of 9-11%.

- **Lending portfolio rebalancing imminent:** Advances after 4% QoQ growth was up 1% YoY. Retail advances grew 13% YoY and 4% QoQ. Corporate and commercial banking advances too grew 3% QoQ.

  RBL plans to reduce the proportion of unsecured lending by 7-10% points – primarily by de-emphasising corporate unsecured lending and other non-collateralised lending in retail (ex-credit card and MFI). It will continue to scale up its domain expertise and gain market share in both MFI and credit cards. Also, it will push through more of secured lending – scale up gold lending, build tractor financing (in rural markets) and ramp up home loan portfolio.

- **Credit card business – profitable even in the period of stress:** Credit card business despite witnessing more than 12% slippages and 10% credit cost was a profitable product segment in FY21. This enhances confidence that performance of the portfolio is at least equal to that of peers, if not better. Credit card portfolio was flat QoQ – as cards in force increased QoQ from 2.82mn to 2.96mn continuing with monthly acquisition run-rate of 0.13mn. Total spend for the period was up 5% QoQ led largely by retail segment. Collection efficiency in credit card business has reached the pre-covid level of 100%.

- **Microfinance – to also remain mainstay in unsecured vertical:** Disbursements in MFI were up from Rs15.3bn to Rs22.9bn and grew 6% QoQ. RBL is witnessing collection efficiency of >99% excluding four states witnessing stress, namely West Bengal, Assam, Maharashtra and Punjab. Going by the moderating trend of 1+ dpd with improved collections, it seems credit cost will be managed in the MFI portfolio at 5% (this will be offset by coverage of first loan default guarantee (FLDG) arrangement with the business correspondents). However, we will review and monitor collections, stress and political developments (if any) amidst covid resurgence to tweak our stance.

- **Housing – a new feather in the cap for secured business diversification:** To reduce inherent risk in the business model, management is looking to scale up the secured retail portfolio (affordable housing and low-cost mortgages). Having already rolled out 66 branches for housing finance, it expects to add another 75 branches in FY22. Through such network expansion, it is targeting accretion of Rs15bn in housing portfolio (~2-3% of total advances). Overall, the bank is looking forward to RoA of 1.5% on a steady-state basis from this business. Also, it will focus on rolling out more products in the rural segment, namely 2-wheeler financing and home extension loans (besides micro banking).

- **Building capabilities to position itself for growth:** FY21 has been a year of building resilience through balance sheet fortification. RBL was focused on building granularity both on asset as well as liability fronts. Granularisation of deposits, reducing concentration of corporate exposure, building out new secured lending products, and accelerating provisioning on unsecured lending was effected in FY21. The objective was to ensure consistent growth in operating profits. With tightening of risks, strengthened collections, portfolio diversity and building digital capabilities, RBL is now prepared for growth in FY22 and beyond.

Table 1: Q4FY21 result review

(Rs mn, year ending March 31)

Particulars	Q4FY21	Q4FY20	% Chg YoY	Q3FY21	% Chg QoQ
Net Interest Income	9,060	10,210	(11)	9,082	(0)
Fee income	6,600	4,700	40	4,970	33
Add: Other income	284	305	(7)	829	(66)
Total Net Income	15,945	15,215	5	14,880	7
Less: Operating Expenses	(7,179)	(7,567)	(5)	(6,832)	5
Pre-provision operating profit	8,765	7,648	15	8,048	9
Total provisions	-	(5,880)	(100)	(6,200)	(100)
Other provisions	(7,663)	(261)	2,838	102	(7,583)
PBT	1,103	1,508	(27)	1,951	(43)
Less: taxes	(349)	(364)	(4)	(480)	(27)
PAT	753	1,144	(34)	1,471	(49)
Balance sheet (Rs mn)					
Advances	5,86,225	5,80,191	1	5,64,440	4
Deposits	7,31,213	5,78,122	26	6,71,840	9
Asset quality					
Gross NPL	26,015	21,365	22	26,100	(0)
Net NPL	12,414	11,894	4	14,080	(12)
Gross NPL ratio (Change bps)	4.3	3.6	72	4.6	(23)
Net NPL ratio (Change bps)	2.1	2.1	7	2.5	(40)
Credit cost (Change bps)	5.3	4.2	115	4.3	100
Coverage ratio (Change bps)	52.3	44.3	795	46.1	623
Business ratio			**Chg bps**		**Chg bps**
RoA	0.3	0.5	(20)	0.6	(31)
RoE	2.4	4.3	(195)	5.0	(263)
CASA	31.8	29.6	220	31.0	80
Credit / Deposit Ratio	82.0	102.0	(1,996)	85.8	(377)
Cost-Income ratio	45.0	49.7	(470)	45.9	(89)

Source: Company data

Table 2: GNPA stable despite steep spike in slippages, due to accelerated write-offs

(Rs bn, year ending March 31)

GNPA	Q2FY21	Q3FY21	Q4FY21
Opening balance	19.9	20.0	26.1
Add: Additions	2.3	14.7	14.4
Less: Upgrade	0.0	0.1	3.2
Less: Recoveries	1.0	0.8	4.5
Less: Write-off	1.2	7.8	6.7
Closing balance	**20.0**	**26.1**	**26.0**
GNPA (%)	**3.49**	**4.57**	**4.34**
Slippage ratio (%)	**0.41**	**2.62**	**2.57**

Source: Company data, I-Sec research

Table 3: Rating profile has improved considerably over the past year

Rating profile (%)	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21
AAA	8.4	9.2	12.0	16.8	18.3
AA- & above	31.1	31.0	30.8	29.3	30.3
A- & above	33.3	31.2	32.3	29.1	29.2
BBB- & above	20.7	21.1	18.1	18.3	16.8
BB+ & below	6.5	7.5	6.9	6.5	5.7

Source: Company data, I-Sec research

RBL Bank Q4FY21 Earnings Call Takeaways

Opening remarks

- **FY21 has been year of building resilience and granularising both sides of the balance sheet.**
- The focus has been Balance sheet fortification through adequate provisioning and improve PCR, reduce concentration of corporate exposure, build out new secured loan products, significant reduction in cost of funds and to ensure consistent growth in operating profits
- **There are near terms challenges of managing covid impact – but at the same time it has accentuated structural changes in the financial sector**
- Granularisation of deposits, maintain capital adequacy and taking PCR to the industry standards will be focus areas (PCR to materially improve by 7-10% points over next 12 months).
- **Further tightening of risk, portfolio diversity and strengthening collections - prepared for decent growth in FY22 and beyond**
- Landscape definitely changing and want to use agility, tech/digital. How you serve the customer – new vision, new design
- Cost of funds can further come down by 50bps. It can become more competitive. Digitisation will also bring down acquisition cost.

On advance rebalancing

- Risk reward is stacking up – on a 2 year basis want to reduced unsecured proportion by 7-10%.
- **Don't want to give away areas of strengths and will scaling up its domain expertise and gain market share – in both MFI and credit cards. MFI and credit cost has remained profitable even such a challenging environment**
- Besides cards and MFIs, runs other unsecured segments - 2-3 components in retail and also some unsecured in wholesale lending.
- **There is significant portion of unsecured in wholesale and that is de-emphasised – that is currently 5% of the balance sheet. On other retail, it is 2-3% unsecured.**
- Other than MFI and credit card, they have been stopped and will not grow at wholesale unsecured and other retail unsecured. Besides this secured will also grow. So that is how the book will change and rebalance.
- Also grow gold lending, build tractor financing (in rural markets).
- **Home loans – self origination as well as acquired portfolio - (affordable housing has 66 branches and will have 75 branches).**

Wholesale advances

- It is in transitioning mode in wholesale banking. First will de-risk the business; don't want to go into the bulky structure or concentrated exposures. However will look at transactional and working capital financing.
- **Wholesale banking demonstrated good stability and quality** – giving confidence to start growing again in prudent manner.
- Though business comes at a lower yield it has opportunity to cross-sell SME, commercial banking, salary accounts, retail products as well.

- Doesn’t see downside on wholesale except for behavioural movement - A & above rates Is 77.6% and incremental lending is to A and above.
- Wholesale segment is on right side – derisked and adequately provided. Wholesale GNPA at 11bn and composition of wholesale book is strengthening - seeing reasonable resolutions/recoveries in NPA account

On Asset quality

- Gross NPA came down to 4.34% vs. proforma 4.57% in Q3FY21 and with coverage of 72%, net NPA ratio settled at 2.12% vs. 2.52% in proforma Q3FY21.
- **There are no contingency provisioning on the balance sheet but it has made accelerated provisioning and inched up provisioning coverage making.**
- Slippages of Rs31bn - this includes Rs13bn towards cards, Rs3.9bn towards MFIs, Rs7.5-8.0bn towards other retail and balance Rs6bn in wholesale segment.
- Upgrades in Q4FY21 pertained to both wholesale as well as retail segment – an old NPA got upgraded due to change in management control
- Recoveries in Q4FY21 were largely towards retail portfolio.
- Has written-off aggressively in the past 2 quarters. Write-offs in unsecured wholesale book was hardly Rs200-300mn.
- Excluding write-offs PCR was 52% and wants to increase it to 60%.
- **Restructuring** was 9.27bn – well within expected range - of this Rs3.47bn was in wholesale and Rs5.8bn in retail
- **ECLGS** – Rs12bn sanctioned and disbursed to tide over short term stress, Rs6.8bn wholesale and Rs5.3bn in retail

Accelerated provisioning

- **Credit cost of Rs24bn – this includes Rs10.7bn towards cards, Rs1.8bn towards MFIs, Rs3.0bn towards other retail and balance in wholesale segment.**
- Conservative policy of accelerated provisioning for unsecured retail loans
- Cards full provided post 180 days; MFI provisioning in Q4FY21 has taken additional 25% provisioning; On remaining unsecured portfolio as well it has taken 50% provisioning
- Businesses were still profitable despite accelerated provisioning policy. That shows sufficient pricing power to grow retail unsecured.
- On business loans – follows IRAC norms and 65% provisioning coverage.

Credit cost outlook

- Cards it has taken 70% provisioning and balance will come next quarter
- For retail segment, h1FY21 credit cost would be higher
- Only in wholesale, credit cost will be business as usual
- Credit cost in cards business was 10.35% compared to 5.0-5.5% normalised

Fee income

- **Core fee income reversal of 1.44bn in FY21**
- Core fee income was up 40% YoY to Rs6.6bn - retail constituted 77% of the core fee income.
- Credit card fee 25% YoY and general banking 30%

- Confident of expansion in core fee income

NIMs

- **NIMs flat QoQ – 50bps impact of interest reversal on slippages in FY21**
- NIMS in FY22 to normalised to 4.75% levels – excess liquidity will be deployed; wholesale on balance sheet growth would be low but income would accrue
- Operating profits has grown consistently every quarter in FY21
- Products like affordable, gold lending will have yields of 9-11%

On deposits

- Deposits grew 26% YoY and 9% QoQ to Rs731bn
- CASA grew 36% YOY and 11% QOQ to Rs232bn and CASA ratio was at 31.8% vs. 29.6% in Q4 FY20. SA Deposits grew 41% YoY.
- Retail Deposits (as per LCR definition) grew 43% YoY and 12% QoQ

On advance growth

- **Advances after gaining traction of 4% QoQ growth was up 1% YoY.**
- Retail advances grew 13% YoY and 4% QoQ;
- **Credit card was flat QoQ – as cards in force went up QoQ from 2.82mn to 2.96mn continuing with monthly acquisition run-rate of 0.13mn.** However spends in Q4FY21 were lower compared to Q3FY21. Collection efficiency on credit card segment is back to 100%.
- **Disbursements in MFI was up from Rs15.3bn to Rs22.9bn and MFI grew 6% QoQ;** collection efficiency has improved from 93% in Dec'20 to 97% in Mar'21.
- Housing book scale up to Rs16.7bn aided retail growth.
- Corporate and commercial banking advances too grew 3% QoQ

Retail Bank – Commentary from Mr. Harjeet Toor

Cards portfolio

- Prolonged lockdown and gradual opening lasted for 6-9 months. Now there is restart of partial lockdown
- Will manage GNPL and credit cost on guided lines. 25-30bps difference in delinquency in Bajaj customers and otherwise. GNPLs of 5.5%; 90+ dpd is 4.3%.
- Card has performed atleast equally if not better than the industry. Credit cost will remain elevated for a quarter or two
- Restructure book of 2.7% and Rs500mn in 60-90 dpd
- Constant efforts were made to make business stronger
- Salaried and geographical distribution is better than the average
- Spends are higher than pre-covid – 24% growth in spends in FY21 over FY20
- Gained 30bps of market share in card spends
- Issued 0.38bn – overall for year was 0.98mn – market share was up 10 bps

Micro banking

- MFI – engaging with customers through phones – onboarding has moved to digital
- Negligible disbursements in 4 impacted states
- New portfolio has 99.5% collection efficiency

- GNPA at 3.67% versus 2.7% and came lower than 5% indicated; GNPA levels may remain elevated
- Credit cost 2.37%
- One third of portfolio is covered under FLDG
- Average duration is 18 months – pre and post Covid
- Monthly collection model and that continues

Business loans:

- Manufacturing and trading was quick to bounce back but service segment is slow
- Expect recoveries to improve; CE is 99.3% on standard book
- Rs2.8bn is restructured

Housing loans

- Portfolio of 16.7bn – 66 branches and will add 75 branches.
- Average ticket size of 16 lakhs and major part is salaried segment

RBL Bank Q3FY21 Earnings Call Takeaways

On macro and near term strategy

- High frequency indicators suggest sharper recovery. Key monitorable will be success of vaccination efforts.
- ***Wholesale banking demonstrated good stability and quality*** – giving confidence to start growing again in prudent manner.
- ***Stress in retail business loans, MSME and MFI is somewhat higher; MFI – have seen challenges in certain geographies.***
- MSME – new business have been deliberately slowed down.

Outlook going forward

- Reduce inherent risk in business model and provide enhanced visibility of earnings consistency.
- Greater focus to grow secured annuity business of the bank – affordable housing and low cost mortgages – has put up 65 branches and will add another 10 branches
- In FY22, bank will focus on rural businesses by expanding product offerings.
- Granular growth in deposits to improve handsomely
- Cost of funds improvement trend will continue enhancing lending competitiveness
- Wholesale only focusing on better rated categories and steady BB & below book gives some confidence. Facility-wise BB & below would be near 3.5% compared to disclosed numbers of >6%
- Have internal growth driver – have added ~180 wholesale banking customers (>100 on asset side and 70 on liability side). After run-down and consolidation, now should start seeing this portfolio growing.
- Credit card market share will consistently increase.

- MSME and micro banking has seen higher stress than anticipated.

On asset quality

- ***Proforma Gross NPA ratio would be 4.57% (compared to 3.5% in Q2FY21).***
- ***Proforma GNPLs in retail (ex-MFI, ex-credit card) is 4.5% and corporate proforma GNPAs at 4%.***
- ***Proforma slippages at Rs14.7bn (almost 10% run-rate) – however there were aggressive write-offs to the tune of Rs7.8bn thereby containing rise in GNPAs. Provisioning coverage consequently declined to 70% (from 73% in Q2FY21).***
- ***Bulk of the slippages are on account of retail slippages – Rs13bn.*** Has taken full NPA equivalent provisioning on the same.
- ***Final restructuring is expected to be within 1.5% of advances.***
- ***Of the 9.4% exit moratorium credit card portfolio – 5% is written off, 2% is in SMA-1/2, 0.5% in SMA-0, 0.7% restructured and 1.2% standard.***

On provisioning

- Proforma book - PCR is 71%.
- ***50% of contingency buffer has been utilised to the extent of Rs2.8-3.0bn during the quarter.***
- Provisioning coverage is in the range of 50-55% as write-offs are aggressive in few of the portfolios.
- On business banking, would be comfortable with 15-20% cover given the collateralised nature and low LTV.

On operating metrics

- Net Interest Income settled lower than expectations - de-grew 2% YOY/3% QoQ to Rs9.1bn
- ***NIM at 4.19% - subdued due to reversal of interest income on proforma slippages – yields moderated more than 80bps QoQ to 11.5%.***
- ***NIMs and other income trajectory should reflect pre-covid run-rate***
- Core fee income grew 5% YoY and 37% QoQ to Rs5bn – this was led by sharp rise in card related fees to Rs3.3bn (from 2.0bn in Q2FY21). Spends were depressed in moratorium fee and was not collected in Q2. Late fee flowed in Q3FY21 and also new card origination fee led to rise in credit card fee income.
- Operating expenses grew mere 2% QoQ – still down YoY more than 10%

On deposits

- Granular deposit traction is strong and back to pre-covid levels
- Deposits continued the momentum growing 4% QoQ
- Retail Deposits (as per LCR definition) grew 24% YoY and 10% QoQ to Rs244bn – 36.3% of total deposit (compared to 31% YoY)
- ***CASA grew 24% YOY and CASA ratio was stable QoQ at 31.1%***
- ***Cost of deposits were lower 27bpd QoQ and 100% bps YoY to 5.71%***

- ***Incremental growth in savings in 2.5x in 9mFY21 than the last years***
- ***Customer acquisition has doubled YoY***
- LCR is 164%

On advance growth

- Advances were flat (up mere 1% QoQ/down 5% YoY) at Rs564bn - it was primarily due to moderation in commercial banking portfolio – down 5% QoQ/down 29% YoY
- ***Credit card portfolio grew 30% YoY/8% QoQ to Rs121bn***
- Retail advances actually grew 16% YOY/2% QOQ
- Wholesale : Retail mix at 42:58

Micro banking update

- Bureau rejection rates have picked up from 20% to 24% on account of higher delinquencies in the market
- Stress in Assam, WB, Punjab and part of Maharashtra
- ***Collection efficiency is stable at 92% - in West Bengal, Maharashtra, Punjab at 88-90% and Assam at 60%.***
- New disbursements undertaken in a conservative manner
- Initial months they started making payment but then activities took some hit and collection efficiency was impacted.
- In Assam, has stopped disbursements since Nov 2019 and portfolio is down to 2.4%
- Post June have added Rs22bn to MFI book and this operates at 99% collection efficiency
- ***In FY21, expect proforma GNPLs to go up from 2.6% to 5.0-5.5% and credit cost of 2.5%.***

Credit card update

- New card business is back to pre-covid level – market share improved to 4.8%
- Have been acquiring 0.12mn customers every month and cards in force are up to 3.03mn
- Spend growth was 23% QoQ and 4% YoY – 40% gain in market share YoY
- Spend per active card is better than pre-covid level
- ***Previously indicated credit cost was expected to 10% for FY22 – proforma GNPAs at 5.7% and credit cost in 9MFY21 was***
- ***Restructured 4% of book in November and December –*** entry rate into delinquency is better than pre-covid level.
- ***Annualised credit cost of 5.0-5.5% in steady state***
- Of the 9.4% exit moratorium credit card portfolio – 5% is written off, 2% is in SMA-1/2, 0.5% in SMA-0, 0.7% restructured and 1.2% standard.
- Collection efficiency is 100% in the credit card portfolio

- Interchange has come down from 1.45% t0 1.35% as large ticket spends on travel, hotels are not happening.

Business banking segment

- Bounce rate of EMI still elevated at 1.2x pre-covid level
- ECLGS was helpful – disbursed Rs6.6bn – Rs5.5bn was to MSME retail segment
- As of December end Rs500mn is restructured
- GNPLs to 6% compared to 4.5% currently. Loss given default is likely to be low
- New business has been deliberately slowed till economy stabilises

Other highlights

- Will add 7-80 branches this calendar year
- Disbursed Rs 4.3bn under ECLGS

Chart 1: Consolidating corporate book impacting overall credit growth

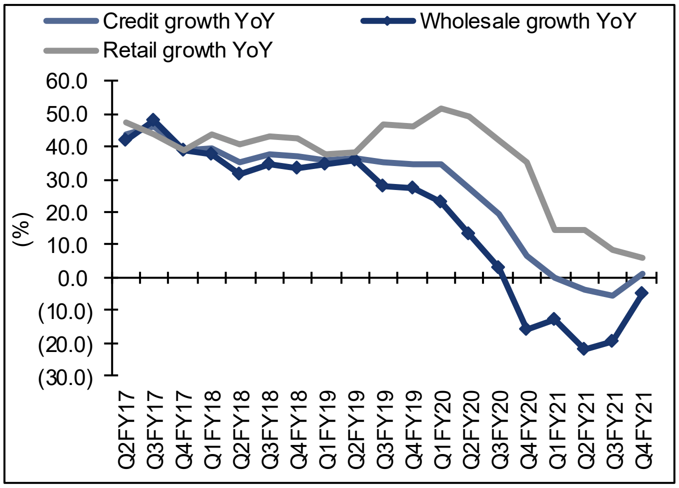


Chart 2: Deposit base shows a rebound from March lows

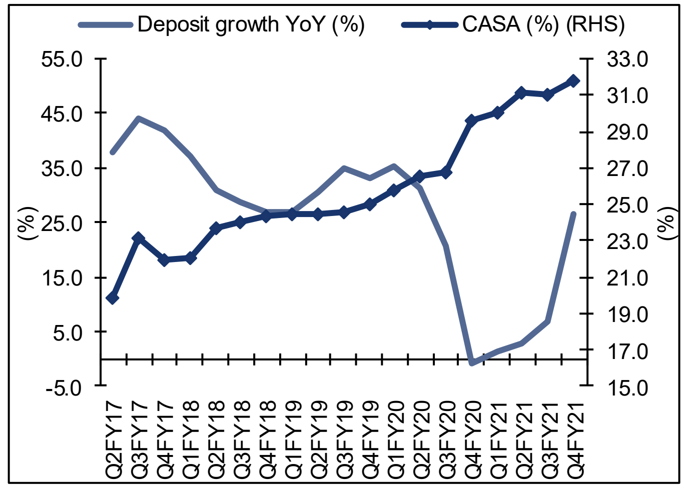


Chart 3: Interest reversals on slippages weigh on NIMs

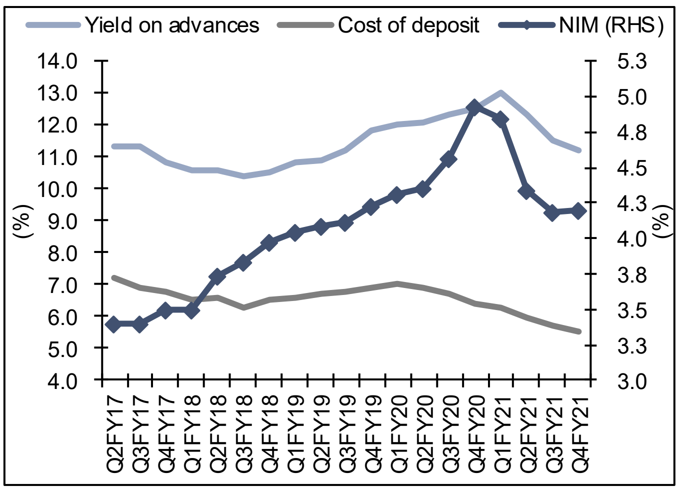


Chart 4: Sharp rise in fee income – retail constitutes 77% of the fee income

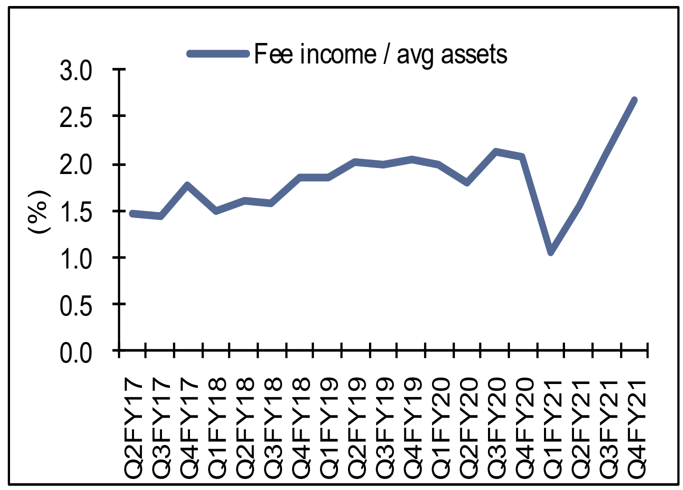


Chart 5: Credit card fees constitutes ~50% of total retail fee income

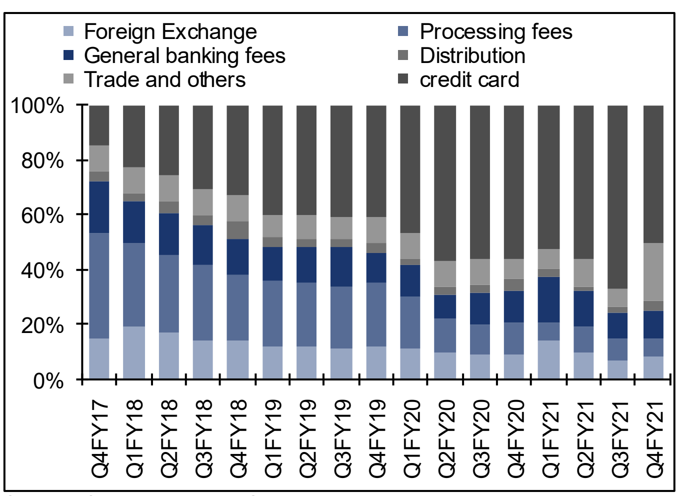
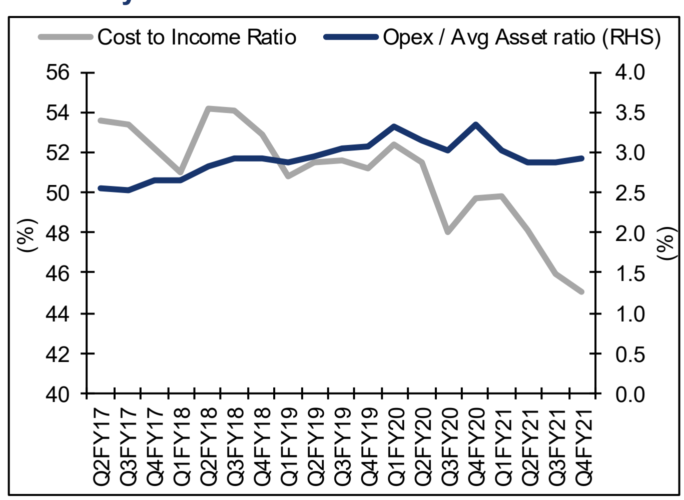


Chart 6: Cost containment initiatives bring in efficiency



Source: Company data, I-Sec research

Chart 7: PCR elevated due to higher provisions

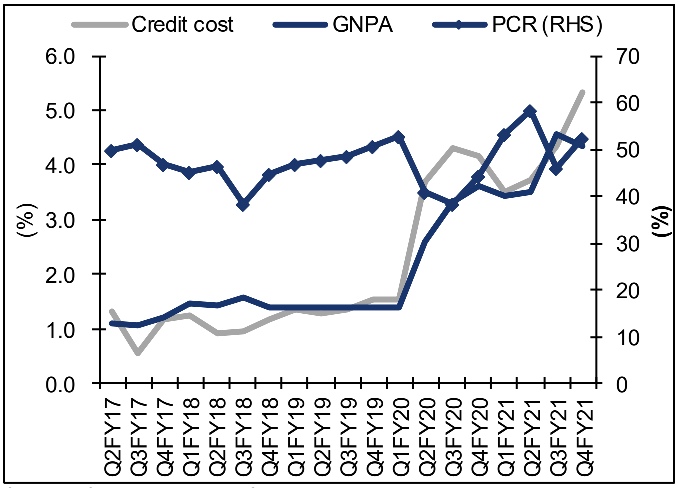
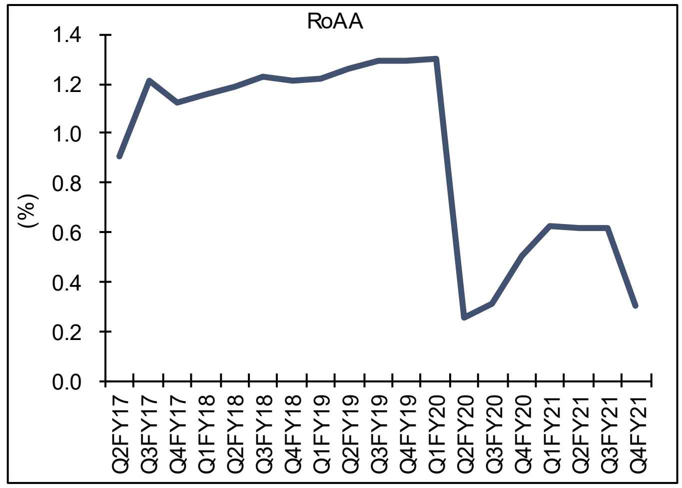


Chart 8: RoA modest as higher credit cost takes a toll on return ratios



Source: Company data, I-Sec research

Financial summary

Table 4: Profit and Loss statement

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Net Interest Income	8,192	12,213	17,663	25,395	36,296	37,876	42,176	48,024
% Growth	47	49	45	44	43	4	11	14
Fee income	3,440	4,912	7,226	11,656	15,055	15,191	17,817	21,423
Add: Other income	1,465	2,642	3,456	2,768	4,048	5,387	4,481	5,243
Total Net Income	**13,097**	**19,768**	**28,345**	**39,818**	**55,399**	**58,454**	**64,473**	**74,691**
% Growth	36	51	43	40	39	6	10	16
Less: Operating Expenses	(7,673)	(10,564)	(15,034)	(20,420)	(27,883)	(27,546)	(30,851)	(35,479)
Pre-provision operating profit	**5,424**	**9,204**	**13,311**	**19,398**	**27,516**	**30,908**	**33,622**	**39,212**
NPA Provisions	**(816)**	**(1,524)**	**(2,571)**	**(4,921)**	**(19,650)**	**(16,480)**	**(17,395)**	**(15,176)**
Other provisions	(328)	(865)	(1,074)	(1,486)	(339)	(7,537)	(754)	(895)
PBT	**4,280**	**6,815**	**9,665**	**12,992**	**7,528**	**6,891**	**15,473**	**23,141**
Less: taxes	(1,355)	(2,354)	(3,315)	(4,323)	(2,471)	(1,813)	(3,895)	(5,825)
PAT	**2,925**	**4,460**	**6,351**	**8,669**	**5,057**	**5,078**	**11,578**	**17,317**
% Growth	41	52	42	37	(42)	0	128	50

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Capital	3,247	3,752	4,197	4,267	5,087	5,980	5,980	5,980
Reserve & Surplus	26,645	39,604	62,643	71,206	1,00,743	1,20,646	1,30,822	1,46,737
Deposits	2,43,487	3,45,881	4,39,023	5,83,944	5,78,122	7,31,213	8,26,270	9,50,211
Borrowings	1,05,362	79,798	92,614	1,18,321	1,70,067	1,12,259	1,14,358	1,19,711
Other liabilities	12,870	17,713	20,031	25,850	35,759	36,409	34,570	40,851
Total liabilities	**3,91,611**	**4,86,748**	**6,18,508**	**8,03,589**	**8,89,778**	**10,06,506**	**11,12,001**	**12,63,490**
Cash & Bank Balances	24,499	41,936	42,844	66,021	88,572	1,34,242	1,15,705	1,25,439
Investment	1,44,359	1,34,815	1,54,473	1,68,404	1,81,497	2,32,304	2,64,827	3,09,847
Advances	2,12,291	2,94,490	4,02,678	5,43,082	5,80,191	5,86,225	6,56,572	7,55,058
Fixed Assets	1,773	2,587	3,340	4,025	4,698	4,665	4,805	4,949
Other Assets	8,689	12,918	15,172	22,057	34,820	49,070	70,092	68,197
Total Assets	**3,91,611**	**4,86,748**	**6,18,508**	**8,03,589**	**8,89,778**	**10,06,506**	**11,12,001**	**12,63,490**
% Growth	44.5	24.3	27.1	29.9	10.7	13.1	10.5	13.6

Source: Company data, I-Sec research

Table 6: Dupont analysis

(%, year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Interest income	8.3	8.5	8.2	8.9	10.1	8.7	8.7	8.8
Interest expense	(5.8)	(5.7)	(5.0)	(5.3)	(5.8)	(4.7)	(4.7)	(4.7)
NII	**2.5**	**2.8**	**3.2**	**3.6**	**4.3**	**4.0**	**4.0**	**4.0**
Other income	1.5	1.7	1.9	2.0	2.3	2.2	2.1	2.2
Fee income	1.0	1.1	1.3	1.6	1.8	1.6	1.7	1.8
Total income	**4.0**	**4.5**	**5.1**	**5.6**	**6.5**	**6.2**	**6.1**	**6.3**
Operating expenses	(2.3)	(2.4)	(2.7)	(2.9)	(3.3)	(2.9)	(2.9)	(3.0)
Operating profit	**1.6**	**2.1**	**2.4**	**2.7**	**3.2**	**3.3**	**3.2**	**3.3**
NPA provision	**(0.2)**	**(0.3)**	**(0.5)**	**(0.7)**	**(2.3)**	**(1.7)**	**(1.6)**	**(1.3)**
Total provisions	(0.3)	(0.5)	(0.7)	(0.9)	(2.4)	(2.5)	(1.7)	(1.4)
PBT	1.3	1.6	1.7	1.8	0.9	0.7	1.5	1.9
Tax	(0.4)	(0.5)	(0.6)	(0.6)	(0.3)	(0.2)	(0.4)	(0.5)
PAT	**0.9**	**1.0**	**1.1**	**1.2**	**0.6**	**0.5**	**1.1**	**1.5**

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending Mar 31)

	FY16	FY17	FY18	FY19	FY20	FY21P	FY22E	FY23E
Per share data								
EPS – Diluted (Rs)	9.0	11.9	15.1	20.3	9.9	8.5	19.4	29.0
% Growth	27.6	32.0	27.3	34.2	-51.1	-14.6	128.0	49.6
DPS (Rs)	-	1.8	2.1	2.7	-	0.7	2.0	2.0
Book Value per share (BVPS) (Rs)	92.0	115.5	159.2	176.9	208.0	211.7	228.8	255.4
% Growth	21.1	25.5	37.8	11.1	17.6	1.8	8.0	11.6
Adjusted BVPS (Rs)	89.5	112.2	154.4	171.2	191.6	196.2	213.8	241.1
% Growth	19.2	25.4	37.6	10.9	11.9	2.4	9.0	12.7
Valuations								
Price / Earnings (x)	20.3	15.4	12.1	9.0	18.4	21.5	9.4	6.3
Price / Book (x)	2.0	1.6	1.1	1.0	0.9	0.9	0.8	0.7
Price / Adjusted BV (x)	2.0	1.6	1.2	1.1	1.0	0.9	0.9	0.8
Asset Quality								
Gross NPA (Rs mn)	2,081	3,568	5,668	7,546	21,365	26,015	27,895	31,117
Gross NPA (%)	1.0	1.2	1.4	1.4	3.6	4.3	4.1	4.0
Net NPA (Rs mn)	1,245	1,900	3,126	3,728	11,164	12,410	11,910	11,410
Net NPA (%)	0.6	0.6	0.8	0.7	1.9	2.1	1.8	1.5
NPA Coverage ratio (%)	40	47	45	51	48	52	57	63
Gross Slippages (%)	1.4	2.5	1.9	1.8	6.2	5.5	4.2	3.7
Credit Cost (%)	0.6	0.9	1.0	1.2	3.5	4.0	2.9	2.2
Net NPL/Networth	4.2	4.4	4.7	4.9	10.5	9.8	8.7	7.5
Business ratios (%)								
RoAA	0.9	1.0	1.1	1.2	0.6	0.5	1.1	1.5
RoAE	11.2	12.2	11.5	12.2	5.6	4.4	8.8	12.0
Credit Growth	47	39	37	35	7	1	12	15
Deposits Growth	42	42	27	33	(1)	26	13	15
CASA	18.6	22.0	24.3	25.0	29.6	31.8	33.0	33.8
Credit / Deposit Ratio	87.2	85.1	91.7	93.0	100.4	80.2	79.5	79.5
Cost-Income ratio	58.6	53.4	53.0	51.3	50.3	47.1	47.9	47.5
Operating Cost / Avg Assets	2.3	2.4	2.7	2.9	3.3	2.9	2.9	3.0
Earning ratios								
Yield on Advances	10.9	10.4	9.8	10.7	12.3	11.2	11.3	11.3
Yield on Earning Assets	8.5	8.7	8.4	9.1	10.5	9.1	9.3	9.4
Cost of Deposits	7.3	6.7	6.0	6.3	7.2	5.8	5.6	5.6
Cost of Funds	6.5	6.4	5.7	6.1	6.7	5.6	5.6	5.6
NIM	**2.5**	**2.9**	**3.3**	**3.7**	**4.5**	**4.2**	**4.2**	**4.3**
Capital Adequacy (%)								
RWA (Rs)	2,67,609	3,71,625	4,80,785	5,83,646	6,73,256	6,50,817	7,43,729	8,42,416
Tier-I	11.1	11.4	13.6	12.9	15.3	19.5	18.4	18.1
CAR	12.9	13.7	15.3	13.5	16.4	19.9	18.8	18.6

Source: Company data, I-Sec research

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