




RBL Bank Limited

Industry	Financial
Bloomberg	RBK IN
BSE CODE	540065

NIM In Upward Trajectory But Provisions Remain Elevated

RATING	BUY
CMP	676
Price Target	834
Potential Upside	23%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	692/439
Mkt Capital (Rs Cr)	28,823
Free float (%)	100%
Avg. Vol 1M (000)	2,775
No. of Shares (Cr)	43
Promoters Pledged %	0%

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4QFY19 Result Update

- ❑ RBL Bank Reported the PAT growth of 39% YoY led by strong NII growth of 48% with NIM expanding 25 bps/11bps on YoY/QoQ due to higher yield on advance lead by MCLR reset and improved mix towards retail segment.
- ❑ Other income continued its growth momentum rising 31% YoY to Rs 409 Cr driven by growth of 44% in the core fee income.
- ❑ Cost to income ratio declined 163 bps YoY at 51.2%. Company expects the ratio to remain in similar range of 50-52% in next few quarters. Company plans to add 60-80 branches in FY20 taking the total branch rollout to around 380-400.
- ❑ Assets Quality remained stable, however agri portfolio continues to give pain. Slippages at the end of Q4FY19 stood at Rs 206 Cr (with 33% agri portfolio) as compared to 211 Cr in Q3FY19. GNPA stood flat YoY at 1.38% while the NNPA improved by 9 bps YoY. Provisions for the quarter increased to Rs 200 Cr v/s 113 Cr in Q4FY18. PCR stood at 65.3% v/s 57.6% in Q4FY18.
- ❑ Advances during the quarter grew by 35%/5% on YoY/QoQ basis led by retail segment which grew by 58% YoY/12% QoQ and DB&FI segment growing 34% YoY/12% QoQ. Deposits during the quarter grew by 33% YoY while the CASA grew by 37% YoY driven by strong SA growth of 54% YoY. CASA ratio stood at 25% v/s 24.3% a year back.
- ❑ Company has taken approval from the board to raise tier 1 capital up to Rs 3500 Cr however the modality, quantum and timing would be finalized post shareholder approval in upcoming AGM.

View and Valuation

NII has shown strong traction led by NIM expansion and healthy loan growth. MCLR reset at higher rate and change in asset mix has led major improvement in NIM. Management is confident of maintaining NIM going forward. Operating expenses is expected to remain elevated in line with management strategy of expansion and digitalization. Agriculture and MFI portfolio continues to give pain whereas credit cost in card business still remains elevated. Improvement of assets quality in retail segment is still awaited which will drive the credit cost to be lower. Advances growth is likely to maintain strong growth ahead. Led by higher credit cost, RBK is unlikely to achieve its 1.5% RoA target for FY20. We reduce our PAT estimate for FY20 by 4%. Board has approved the equity dilution plan upto Rs 3500 subject to shareholders' approval. We roll over our target price on FY21 estimates and recommend BUY with the target of Rs 834.

Key Risks to our rating and target

- ❑ Further loan waiver and poor monsoon will impact the assets quality
- ❑ Higher than expected opex will depress the profitability.

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
NII	1221	1766	2539	3436	4512
PPP	920	1331	1940	2598	3475
PAT	446	635	867	1241	1687
NIM %	3.0	3.4	3.8	4.0	4.0
EPS (Rs)	12	15	20	29	40
EPS growth (%)	32	27	34	43	36
ROE (%)	12.2	11.5	12.2	15.3	17.9
ROA (%)	1.0	1.1	1.2	1.3	1.4
BV	116	159	177	203	238
P/B (X)	4.3	3.0	3.8	3.3	2.8
P/E (x)	41.6	31.5	33.5	23.2	17.1

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4Q FY 19 Results

Income above expectation

Strong performance

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,223	1,364	1,463	1,639	1,834	50%	12%	4,508	6,301	39.8%
Interest Exp.	722	812	870	984	1,095	52%	11%	2,741	3,761	37.2%
NII	500	553	593	655	739	48%	13%	1,766	2,539	43.8%
Other Income	312	326	333	374	409	31%	9%	1,068	1,442	35.0%
Total Income	812	879	926	1,029	1,148	41%	12%	2,834	3,982	40.5%
Ope Exp.	429	446	477	531	588	37%	11%	1,503	2,042	35.8%
PPP	383	432	449	498	560	46%	12%	1,331	1,940	45.7%
Provisions	113	140	140	161	200	77%	24%	365	641	75.8%
PBT	270	292	309	338	360	33%	7%	967	1,299	34.4%
Tax	92	102	105	113	113	22%	0%	331	432	30.4%
Net Profit	178	190	205	225	247	39%	10%	635	867	37%

NII growth driven by NIM expansion

NII during the quarter grew by 48% YoY/12% QoQ while NIM expanded by 25 bps/11bps on YoY/QoQ basis at 4.23% due to the higher yield on advances. Yield during the quarter improved by 130bps/60bps on YoY/QoQ on account of MCLR reset and change in asset mix towards retail segment. Cost of fund increased in the quarter to 6.8% v/s 6.2% in Q4FY18. Company believes going forward into FY20 it will be able maintain the NIM at the current level while the cost of fund is expected to be flat.

Card Business continues to drive Core fee income growth.

The Core fee income during the quarter grew by 44% YoY with fee from the credit card being the major contributor. Fee income from credit card grew 81% YoY to Rs 159 Cr. The rise in the Card income has been led by increase in the customer base which grew 2x to 1.71 million v/s 0.80 million in Q4FY18. The company made an addition of 0.34 million customers during the quarter. Management further targets to double its customer base in next 18 months. The Card business has been delivering the ROA in excess of average ROA of the company and company believes once the card numbers reached 3.5 million base it will give an industry Level ROA.

Stable Asset quality

Company has been able to maintain its asset quality except in the Agri portfolio where the NPA increased due to loan waivers. The Gross NPA in the Micro banking business reduced to 0.64% while the GNPA in LAP is 0.72% and cards are at 1%. Net stressed asset stood at 0.73% v/s 0.86% in Q4FY18 while the PCR stood at 65.3% v/s 57.6% in Q4FY18. Company has further provided for entire demonetization impacted portfolio. Slippages at the end of the quarter stood at RS 206 Cr containing 33% agri portfolio, 33% card and rest being others. Standard restructure asset as a % of advance stood at 0.04% while security receipt stood at 0.01%. Management believes that card book slippages will be stable going forward.

Cost to income ratio improves

Cost to income ratio for FY19 stood at 51.28% v/s 53.04% in FY18 on account of lower Opex growth during the year. Management believes that the C/I ratio will remain in the range of 50-52% going forward into FY20. It plans to add further 60-80 branches during the FY20 to take the total count to 380-400 by the end of FY20.

Approval to raise Tier 1 Capital

Company has taken approval from the board to raise Tier 1 capital up to Rs 3500 Cr however it said that the decision on quantum, modularity and timing of the capital raise would be discussed in forthcoming AGM of the shareholders. The CAR as of Q4FY19 stood at 13.5% v/s 13.8% in Q3FY19 while the tier 1 capital was 12.1% v/s 12.5% in Q3FY19

Changing advance mix

Company has witnessed significant change in advance mix during the year. The wholesale and non-wholesale mix has changed from 60: 40 in FY18 to 55: 45 in FY19 which has in turn lead to improvement of NIM. The retail asset segment has witnessed a growth of 58% YoY with robust growth of 135% YoY by credit cards, 55% by LAP and 39% by BIL . wholesale segment front Microbanking grew 41% YoY, while the IFI had muted growth of 2% YoY.

Concall Highlights

- Company has taken approval from the board to raise tier 1 capital upto Rs 3500 Cr however the modality, quantum and timing would be finalized post shareholder approval in upcoming AGM.
- Management feels that the ROA target of 1.5% in FY20 will not be possible but will exit the 4Q FY20 near to that level. ROA driver will be NIM expansion and cost efficiency. RoA of FY19 is 1.27%.
- Rate cut by RBI signals growth opportunity ahead. The transmission of rate cut will be gradual over the period of time. Saving deposits growth may moderate due to rate cut.
- Improvement in NIM- Yield increased due to MCLR reset and change in assets mix towards retail. Cost of fund moved lower than the industry mainly on account of optimization of fund. NIM improved by 11 bps at 4.23%. Company is confident of maintaining NIM going forward into FY20 on the back of the mix improvement towards retail segment. Cost of fund will likely remain flat.
- Cost to income ratio for full year was 51.3% and company expects cost to income ratio to broadly remain in range of 50-52% over next few quarters. Plans to add 60-80 branches in FY20 to take total branch count between 380-400 branches.
- Credit environment in the micro banking continues to be stable but company is watchful of any disruption that may happen.
- Retail Agri book remained flat on sequential basis. Book has reduced to less than 3% as per the strategy given the stress in the book. NPA increased due to farm loan waiver.
- Asset quality for the company continues to be stable except in agri portfolio. The Gross NPA in the micro banking business is reduced to 0.64% and bank has completely provided for demonetization impacted portfolio. GNPA in LAP is 0.72% and cards is at 1%.
- Slippages of Rs 206 Cr contains 33% agri portfolio, 33% is card and rest are Others. Management believes Card book slippages to be stable going forward.
- In FY19, out of total increase in GNPA 20% was contributed from card business. NPA in card business is 1% and is trending down. Credit cost which was 4.3% in FY18, declined to 4% in FY20.
- Management is cautious on SME segment which resulted in conservative growth in the commercial banking segment. However, management expects the growth in this segment to improve over the coming quarters as macro condition stabilizes.
- As regards to the cards business company has grown to 1.7 million as of Q4FY19. Company acquired 340000 card customers this quarter as compared to 290000 in the last quarter. RBL Bajaj Finance Co brand card reached 1 million mark making it one of largest co-brand card partnership in country. Management targets to double the card base in next 18 months.
- The Card business has been delivering the ROA in excess of average ROA of the company and company believes once the card numbers reached 3.5 million base it will give an industry Level ROA.
- Out of the total Card book 48% is Bajaj and rest in Non-Bajaj. Out of the total card Book around 25% does not earn interest.
- The reason for reduction in ATM count is firstly company is looking to rebalance portfolio and making sure some of loss-making ATM are moved to profitable areas and also having change in service vendor. The company expects to get back to normal number from next quarter.
- The RBL Bank Limited increased its equity stake to 100% in RBL FinServe Limited. 55% of the microfinance and 95% of the MSME book is originated directly by the bank to RBL finserve.

Profitability Matrix

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
C/I Ratio %	54.2	54.0	52.8	50.8	51.5	51.6	51.2	-1.63	-0.35
Empl. Cost/ Tot. Exp. %	40.1	36.6	30.4	34.3	31.6	30.9	28.6	-1.79	-2.31
Other Exp/Tot. Exp.%	59.9	63.4	69.6	65.7	68.4	69.1	71.4	1.79	2.31
Provision/PPP %	24.7	24.7	29.5	32.5	31.1	32.2	35.7	6.25	3.47
Tax Rate %	34.0	34.2	34.1	34.9	33.9	33.3	31.3	-2.75	-1.99
Int Exp./Int Inc. (%)	61.5	59.4	59.1	59.5	59.5	60.0	59.7	0.65	-0.31
Other Inc./Net Inc. %	36.5	35.6	38.4	37.1	36.0	36.3	35.6	-2.75	-0.70
PAT/ Net Income %	22.8	22.8	21.9	21.6	22.1	21.9	21.5	-0.39	-0.35
RoE %	10.5	10.2	10.9	11.2	11.6	11.7	12.2	1.25	0.43
RoA %	1.2	1.2	1.3	1.3	1.3	1.3	1.3	0.02	0.01

Margin Performance

Margin %	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.6	10.4	10.5	10.8	10.9	11.2	11.8	1.30	0.60
Cost of Deposits	6.4	6.1	6.2	6.4	6.4	6.6	6.8	0.60	0.20
Cost Of Funds	6.6	6.4	6.5	6.6	6.7	6.8	6.9	0.40	0.10
NIM	3.7	3.9	4.0	4.0	4.1	4.1	4.2	0.25	0.11

Exhibit: Yield and Cost

Both yield on total assets and cost of fund increased.

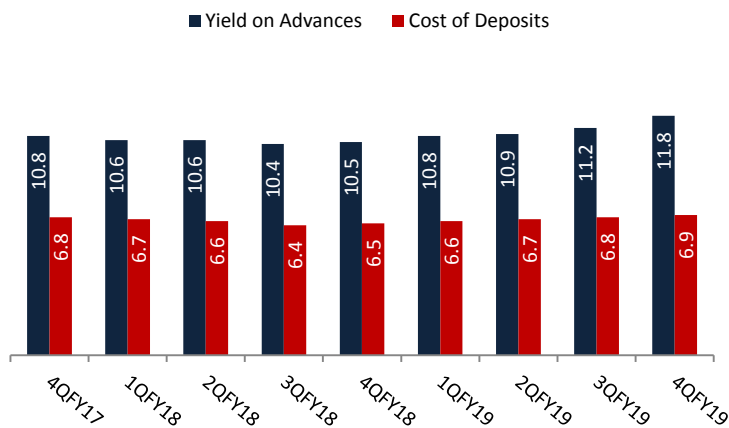
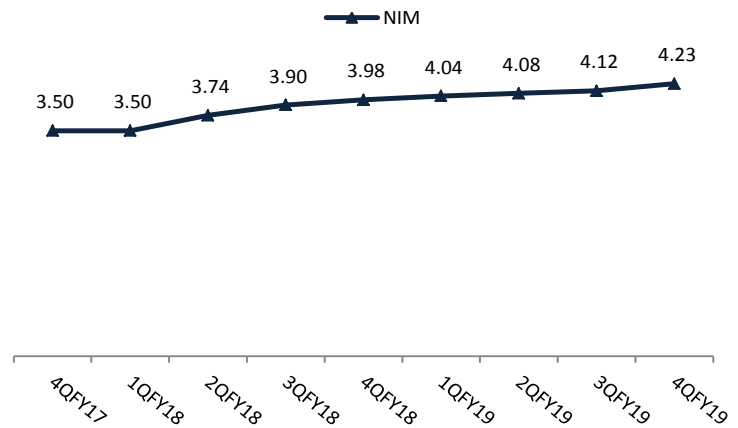


Exhibit: Net Interest Margin

NIM on improving trend.



Other Income Break Up- Card fee income drives other income growth

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
FX	33	35	35	35	38	35	39	38	47
Proc Fee	78	57	57	67	65	69	75	80	89
Gen Banking	39	27	30	28	38	35	46	48	43
Distribution	8	5	59	8	16	12	13	10	16
Credit card	31	42		70	88	116	130	142	159
Trade and Others	16	16	22	23	26	23	26	28	35
Total fee income	205	183	203	230	270	289	325	346	388
Growth YOY%	45.4	48.8	38.1	50.3	31.7	57.9	60.1	50.4	43.7
Trading - FICC	33	75	39	28	40	36	7	28	21
Total Other Income	237	257	241	258	312	326	333	374	409
Growth YOY%	65.8	53.3	42.6	41.7	31.9	26.9	38.0	44.9	31.1

Exhibit: Fee Income/Advances %

Fee income remains robust.

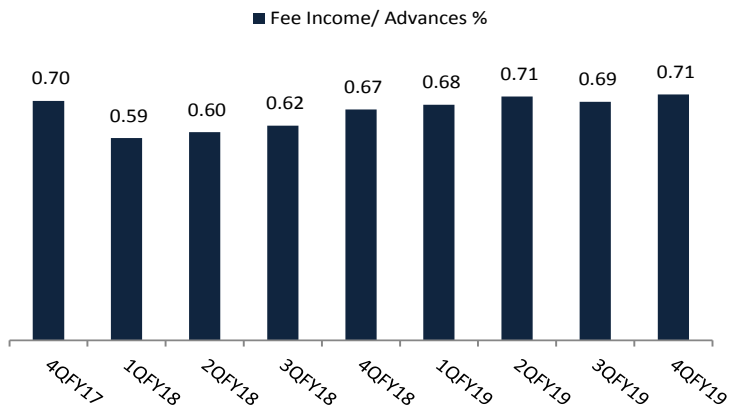
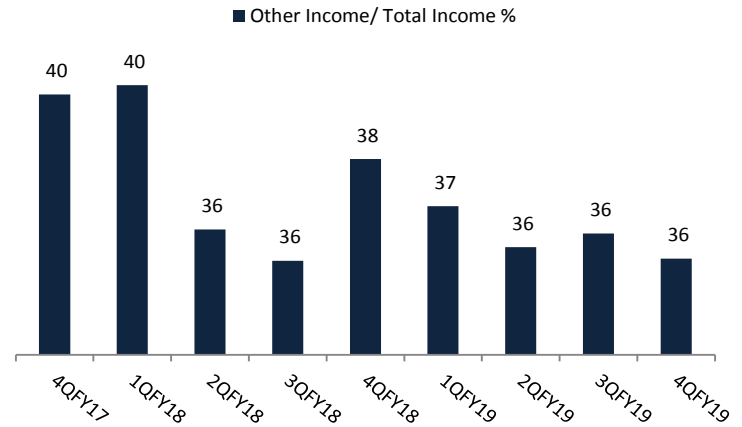


Exhibit: Other Income/ Total Income %

Other income remains stable



Asset Quality

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	487	580	567	597	644	696	755	33%	8%
GNPA %	1.44	1.56	1.40	1.40	1.40	1.38	1.38	-0.02	0
NNPA (Rs in Cr)	261	358	314	316	339	358	373	19%	4%
NNPA %	0.78	0.97	0.78	0.75	0.74	0.72	0.69	-0.09	-0.03
Slippages (Rs in Cr)	92	210	115	148	142	211	206	79%	-2%
Std Restructured Assets %	0.41	0.18	0.08	0.10	0.07	0.09	0.04	-0.04	-0.05
Net Stress Assets %	1	1	1	1	1	1	1	-0.19	-0.12
PCR %	58	53	58	60	61	63	65	7.73	2.08

GNPA Composition(%) – Segment-wise

	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
C&IB	29	22	21	25	15	15	14	13	16
CB	39	31	25	18	22	37	40	36	31
Agri	5	5	5	10	14	-	-	-	-
BBB/Retail Assets	21	19	21	19	20	28	31	41	45
DB&FI	6	22	27	28	29	20	15	10	7

Exhibit: Asset Quality

Stable asset quality

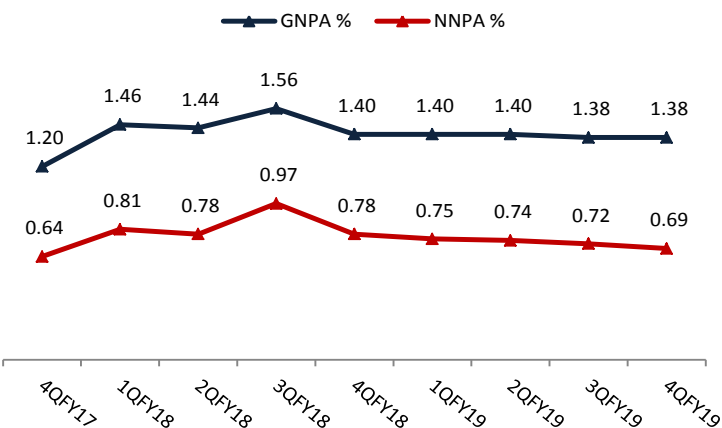


Exhibit: Provisions

PCR improved.

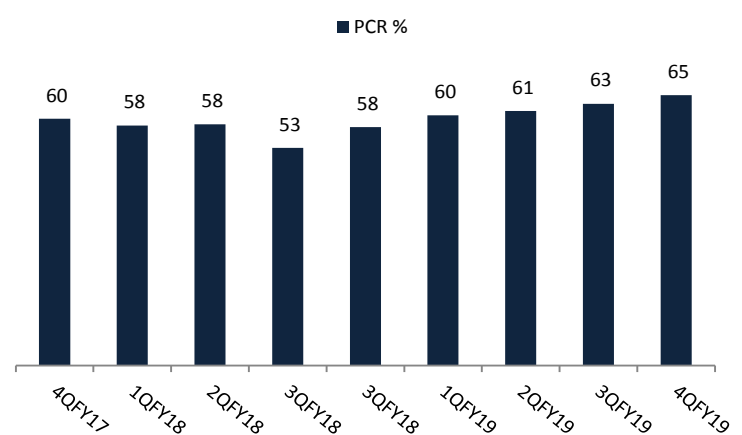


Exhibit: Advances Performance

Healthy advance growth

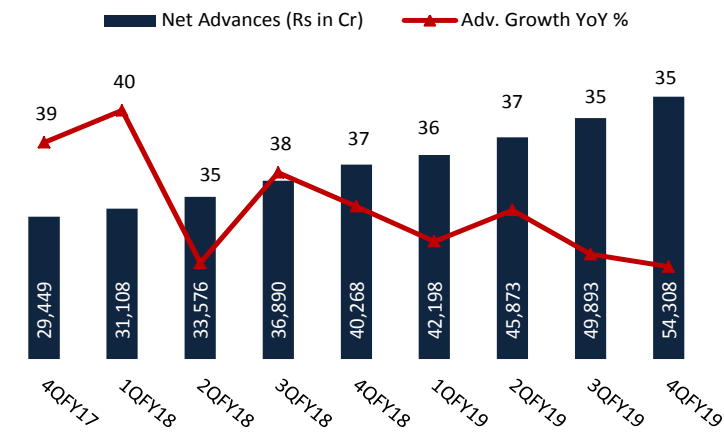


Exhibit: Advances Breakup%

Unsecured loan picking-up

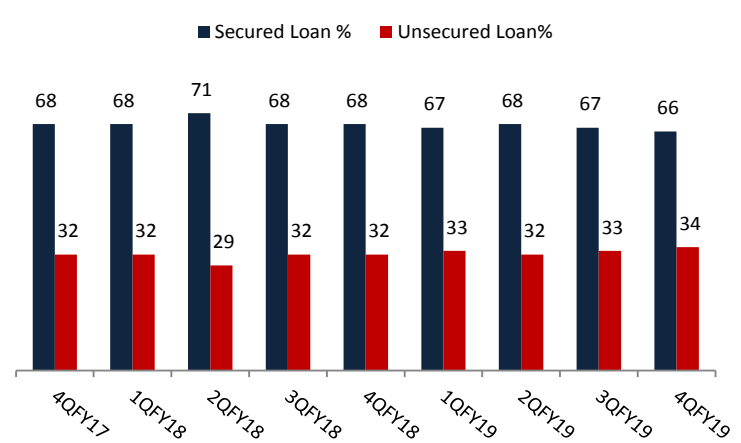


Exhibit: Deposits Performance

Deposits growth increased.

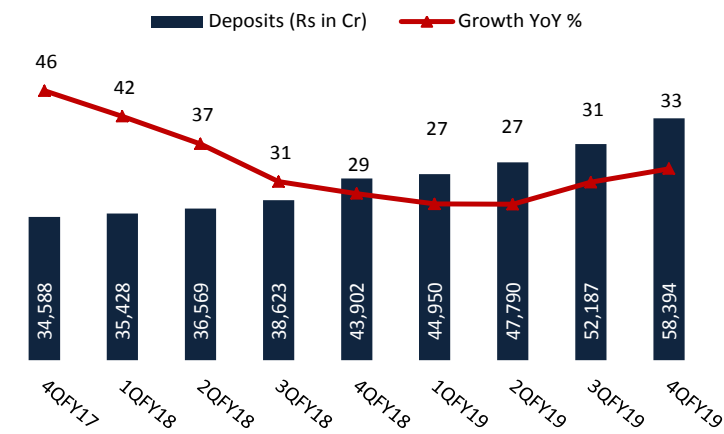


Exhibit: CASA Performance

CASA ratio remained stable

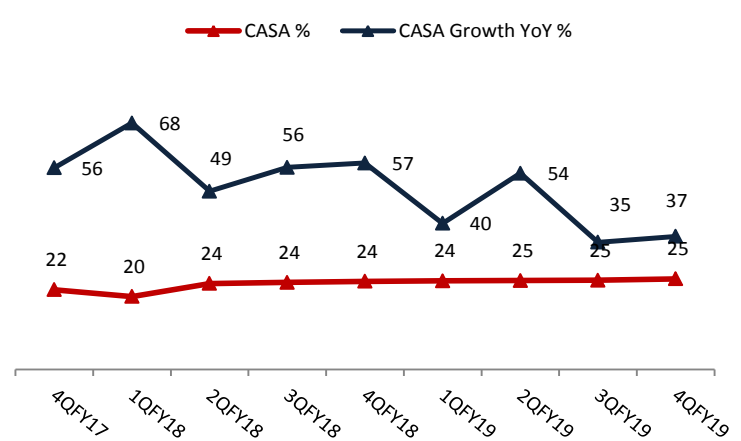


Exhibit: Credit Deposit Ratio

CD ratio went down

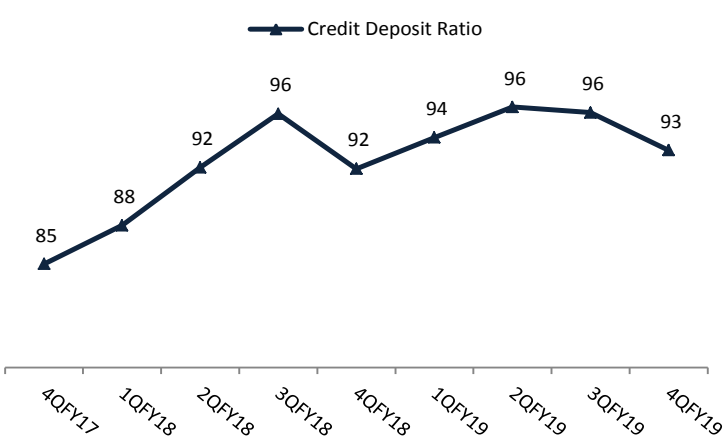
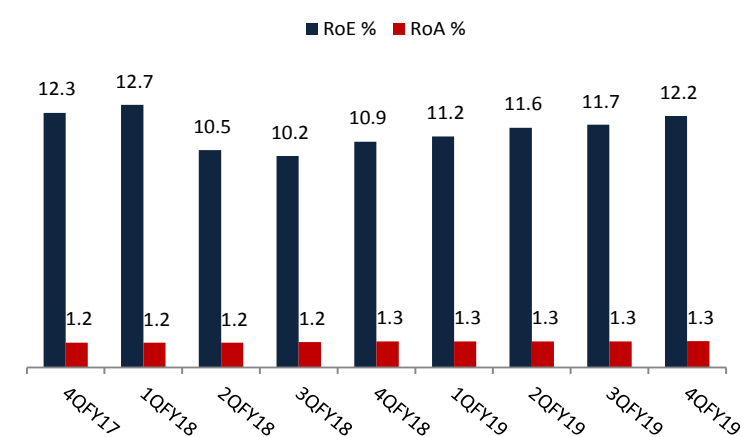


Exhibit: Return Ratios

Return ratio profile.



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	272	293	325	375	420	427	427	427
>> Equity Capital	272	293	325	375	420	427	427	427
>> Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1743	1937	2665	3960	6264	7121	8223	9741
Networth	2015	2230	2989	4336	6684	7547	8650	10168
Deposits	11599	17099	24349	34588	43902	58394	78776	101954
Change (%)	39	47	42	42	27	33	35	29
>> CASA Deposits	2370	3157	4529	7609	10678	14599	20482	28037
Change (%)	44	33	43	68	40	37	40	37
Borrowings	3896	6963	10536	7980	9262	11832	14591	18726
Other Liabilities & Provisions	689	812	1287	1771	2003	2585	2560	3314
Total Liabilities	18198	27105	39161	48675	61851	80359	104578	134162
Cash & Bank	1192	2170	2450	4194	4284	6602	7791	10036
Investments	6518	9792	14436	13482	15448	16840	22451	29057
Change (%)	17	50	47	-7	15	9	33	29
Advances	9835	14450	21229	29449	40268	54308	71687	91759
Change (%)	54	47	47	39	37	35	32	28
Fixed Assets	134	164	177	259	334	402	443	487
Other Assets	518	528	869	1292	1517	2206	2206	2823
Total Assets	18198	27105	39161	48675	61851	80359	104578	134162

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest income	1,352	1,953	2,744	3,713	4,508	6,301	8,679	11,343
Interest expended	1,010	1,397	1,925	2,492	2,741	3,761	5,243	6,831
Net Interest Income	342	556	819	1,221	1,766	2,539	3,436	4,512
Change (%)	33	63	47	49	45	44	35	31
Other Income	261	403	491	755	1,068	1,442	1,891	2,438
Change (%)	106	55	22	54	41	35	31	29
>> Core Fee Income	217	341	430	628	886	1,348	1,774	2,240
>> Treasury Income	44	63	61	130	182	92	117	198
>> Others	-	-	-	(2)	1	3	0	-
Total Net Income	603	960	1,310	1,977	2,834	3,982	5,327	6,950
Operating Expenses	424	600	767	1,056	1,503	2,042	2,730	3,475
Change (%)	87	41	28	38	42	36	34	27
>> Employee Expenses	185	301	370	446	551	636	822	1,042
Pre-provisioning Profit	179	360	542	920	1,331	1,940	2,598	3,475
Change (%)	14	102	51	70	45	46	34	34
Provisions	86	153	114	239	365	641	717	918
Change (%)	34	78	-25	109	53	76	12	28
PBT	93	207	428	682	967	1,299	1,881	2,557
Tax	-	-	136	235	331	432	640	869
Profit After Tax	93	207	292	446	635	867	1,241	1,687
Change (%)	0	124	41	53	42	37	43	36

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Balance Sheet Metrics								
Loan Growth (%)	54	47	47	39	37	35	32	28
Deposit Growth (%)	39	47	42	42	27	33	35	29
C/D Ratio (%)	85	85	87	85	92	93	91	90
CASA (%)	20	18	19	22	24	25	26	28
Investment/Deposit (%)	56	57	59	39	35	29	29	29
CRAR (%)	14.6	13.1	12.9	13.7	15.3	13.5	11.7	10.5
>> Tier 1 (%)	14.3	12.7	11.1	11.4	13.6	12.1	10.2	9.4
>> Tier 2 (%)	0.3	0.4	1.8	2.3	1.7	1.4	1.5	1.1

Assets Quality Metrics

Gross NPA (Rs)	78	111	208	356	567	755	1,016	1,368
Gross NPA (%)	0.8	0.8	1.0	1.2	1.4	1.4	1.4	1.5
Net NPA(Rs)	31	39	124	190	314	373	477	629
Net NPA (%)	0.3	0.3	0.6	0.6	0.8	0.7	0.7	0.7
Slippages (%)	1.0	0.5	1.4	2.5	1.9	1.8	1.7	1.6
Provision Coverage (%)	-	-	56	60	58	65	68	70
Provision/Average Advances (%)	1.1	1.3	0.6	0.9	1.0	1.4	1.1	1.1

Margin Metrics

Yield On Advances (%)	11.4	11.6	10.9	10.4	9.8	10.7	11.3	11.3
Yield On Investment (%)	6.8	6.4	6.2	7.0	6.9	6.8	7.2	7.3
Yield on Earning Assets (%)	9.2	9.2	8.8	9.0	8.7	9.5	10.1	10.1
Cost Of Deposits (%)	7.7	7.6	7.3	6.7	6.0	6.1	6.5	6.5
Cost Of Funds (%)	10.0	9.6	7.3	6.4	5.7	6.0	6.3	6.3
Spread (%)	(0.8)	(0.3)	1.4	2.7	3.1	3.5	3.7	3.8
NIM (%)	2.3	2.6	2.6	3.0	3.4	3.8	4.0	4.0

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.7	71.5	70.1	67.1	60.8	59.7	60.4	60.2
Fee Income/NII (%)	-	-	-	51.4	50.2	53.1	51.6	49.7
Cost to Income (%)	70.4	62.5	58.6	53.4	53.0	51.3	51.2	50.0
Cost on Average Assets (%)	2.9	2.8	2.4	2.6	2.9	3.1	3.2	3.1
Tax Rate (%)	-	-	31.7	34.5	34.3	33.3	34.0	34.0

Valuation Ratio Metrics

EPS (Rs)	3.4	7.1	9.0	11.9	15.1	20.3	29.1	39.5
Change (%)	(7.1)	107.3	27.6	32.0	27.3	34	43.2	35.9
ROAE (%)	5.1	9.8	11.2	12.2	11.5	12.2	15.3	17.9
ROAA (%)	0.6	0.9	0.9	1.0	1.1	1.2	1.3	1.4
Dividend Payout (%)	-	-	-	15.1	13.9	13.3	11.3	10.1
Dividend yield (%)	-	-	-	0.4	0.4	0.4	0.5	0.6
Book Value (Rs)	74	76	92	116	159	177	203	238
Change (%)	17	3	21	26	38	11	15	18
ABVPS (Rs)	73	75	88	110	152	168	191	224
P/B (X)	-	-	-	4.3	3.0	3.8	3.3	2.8
P/E (X)	-	-	-	41.6	31.5	33.5	23.2	17.1

Financial Details

Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<i>Interest Income</i>	8.6	8.3	8.5	8.2	8.9	9.4	9.5
<i>Interest expended</i>	6.2	5.8	5.7	5.0	5.3	5.7	5.7
<i>Net Interest Income</i>	2.5	2.5	2.8	3.2	3.6	3.7	3.8
<i>Non-Fund Based Income</i>	1.8	1.5	1.7	1.9	2.0	2.0	2.0
>> Core Fee Income	1.5	1.3	1.4	1.6	1.9	1.9	1.9
>> Trading and Other Income	0.3	0.2	0.3	0.3	0.1	0.1	0.2
Core Operating Income	4.0	3.8	4.2	4.8	5.5	5.6	5.7
<i>Total Income</i>	4.2	4.0	4.5	5.1	5.6	5.8	5.8
Total Operating Expenses	2.6	2.3	2.4	2.7	2.9	3.0	2.9
>> Employee Expenses	1.3	1.1	1.0	1.0	0.9	0.9	0.9
>> Other Expenses	1.3	1.2	1.4	1.7	2.0	2.1	2.0
<i>Operating Profit</i>	1.6	1.6	2.1	2.4	2.7	2.8	2.9
Provisions	0.7	0.3	0.5	0.7	0.9	0.8	0.8
Others	-	-	-	-	-	-	-
PBT	0.9	1.3	1.6	1.7	1.8	2.0	2.1
Tax	-	0.4	0.5	0.6	0.6	0.7	0.7
<i>PAT/RoAA</i>	0.9	0.9	1.0	1.1	1.2	1.3	1.4
<i>Equity Multiplier (x)</i>	10.7	12.7	12.0	10.0	10.0	11.4	12.7
<i>ROAE</i>	9.8	11.2	12.2	11.5	12.2	15.3	17.9

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