

RBL Bank Limited

Industry Financial
Bloomberg RBK IN
BSE CODE 540065

Rise in Credit Cost will dampen the Profitability Growth

RATING	ACCUMULATE
CMP	500
Price Target	565
Potential Upside	13%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	716.55/438.80
Mkt Capital (Rs Cr)	21,401
Free float (%)	100
Avg. Vol 1M (,000)	3,112
No. of Shares (Cr)	428
Promoters Pledged %	

FINANCIAL	FY19	FY20E	FY21E
NII	2539	3500	4731
PPP	1940	2608	3565
PAT	867	1058	1749
NIM %	3.8	4.1	4.2
EPS (Rs)	20	25	41
EPS growth	34	22	65
ROE (%)	12	13	19
ROA (%)	1.2	1.2	1.5
BV	177	198	235
P/B (X)	3.8	2.5	2.1
P/E (x)	33	20	12

Research Analyst
DEEPAK KUMAR

Deepak.kumar@narnolia.com
+91-22-62701205

1QFY20 Result Update

- ❑ RBLBANK reported healthy performance in 1Q FY20, however rise in stress assets will deteriorate the performance of the bank in coming quarters. Management expect GNPA to slip to 2%-2.5% range and expects credit cost to increase by 30-40 bps for FY20.
- ❑ During the quarter Asset quality of the bank was stable with GNPA at 1.38% while the NNPA was down 4 bps QoQ to 0.65%. The slippages stood at Rs 225 Cr vs Rs 206 Cr a quarter back.
- ❑ Bank registered healthy NII growth of 48% YoY with NIM expanding 27 bps YoY to 4.31%, Other income increased by 47.6% YoY and PAT grew by 40.5% YoY.
- ❑ Advance grew by 35%/5% on YoY/QoQ, deposits grew by 35%/4% on YoY/QoQ basis. CASA ratio stood at 25.8% vs 25%

Strong NII growth/ Upward trajectory in NIM continues.

NII for the quarter grew by 47.9% YoY to Rs 817 Cr with NIM expanding 27 bps YoY to 4.31% with increase in yield by 20 bps QoQ. The increase in yield has primarily on account of change in business mix towards retail assets. The cost of fund was 6.8%, while the cost of deposit grew by 40 bps YoY to 7% however with the improvement in liquidity cost of fund is expected to improve going ahead. Fee income growth remained healthy at 42% YoY mainly on account of healthier growth in credit card fee. Treasury gain was Rs 70 Cr vs Rs 36 Cr YoY. Overall other income grew by 48% YoY. The cost to income ratio for the bank stood at 52% vs 51% QoQ. Total operating expenses grew by 52% YoY. The C/I ratio is expected to remain in the range of 52% for FY20.

Asset quality stable but bleak outlook

Bank has been able to maintain its asset quality with GNPA at par with last quarter at 1.38% while the NNPA reduced by 4 bps to 0.65%. The Slippages stood at Rs 225 Cr while the reduction was at Rs 191 Cr with Upgradations at Rs 8 Cr, Recoveries at Rs 36 Cr and Write off at Rs 147 Cr. The Net Stressed Advance was 0.71% v/s 0.85% in Q4FY19. The provision coverage ratio stood at 69.1%v/s 65.30% in Q4FY19. However, management expects the corporate book assets quality to deteriorate in the next few quarters owing to latest development of stress pool in the range of Rs 900-1000 Cr. Hence, GNPA is expected to increase to 2-2.5% range within 1 or 2 quarters and management expects addition credit cost of 35 to 40 bps during the year. The non-funded exposure to the pool is not much.

Healthy advance/deposit growth

Bank registered healthy advance growth of 35%/5% on YoY/QoQ with wholesale segment growing by 23% YoY, Retail segment grew by 62% YoY and DB & FI segment grew by 33.2%. The advance composition among Wholesale and Non wholesale was 54:46. The growth in the Retail segment was led by credit card which grew by 129% and by LAP which grew by 60% and BIL growing by 30% YoY. Management expects the Advance growth to be at 30% for FY20. The deposits grew by 35%/4% on YoY/QoQ basis. The Current deposits grew by 9% YoY but declined by 11% QoQ and the saving deposits grew by 73/22% on YoY/QoQ basis. The CASA stood at 25.8%. The Tier 1 capital of the company stood 11.3%v/s 12.1% in Q4FY19 while the CRAR was 12.4% v/s 13.5% in Q4FY19.

View and Valuation

Overall revenue stream is likely to remain healthy with robust growth in retail advances. NIM continues to maintain upward trajectory with the change in business mix towards higher yielding assets. However, RBL Bank has exposure of Rs 900-1000 Cr towards certain stress group which will impact the NPA ratio going ahead. Additional credit cost in the range of 35-40 bps will drag the profitability in FY20. We cut of income estimate by 17% for FY20 and reduce our target price to Rs 565 at 2.4x BV FY21e. ACCUMULATE.

Key Risks to our rating and target

- ❑ Higher LGD in the stressed assets will increase the credit cost
- ❑ Pressure in rural economy will further impact the growth.

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1QFY20 Results Estimates Inline

Financials	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY %	QoQ %	FY18	FY19	YoY %
Interest Inc.	1,364	1,463	1,639	1,834	2,023	48%	10%	4,508	6,301	39.8%
Interest Exp.	812	870	984	1,095	1,205	49%	10%	2,741	3,761	37.2%
NII	553	593	655	739	817	48%	11%	1,766	2,539	43.8%
Other Income	326	333	374	409	481	48%	18%	1,068	1,442	35.0%
Total Income	879	926	1,029	1,148	1,299	48%	13%	2,834	3,982	40.5%
Opex Exp.	446	477	531	588	680	52%	16%	1,503	2,042	35.8%
PPP	432	449	498	560	619	43%	11%	1,331	1,940	45.7%
Provisions	140	140	161	200	213	52%	7%	365	641	75.8%
PBT	292	309	338	360	406	39%	13%	967	1,299	34.4%
Tax	102	105	113	113	139	36%	23%	331	432	30.4%
Net Profit	190	205	225	247	267	41%	8%	635	867	37%

Concall Highlights

- Management expects deterioration in corporate book in next 1 to 2 quarters. The GNPA can increase to the level of 2%-2.5%. The stressed pool stands in the range of Rs 900-1000 Cr which is around 1.57% of the current advances. The number of accounts involved in it are in low single digit. The non-funded exposure to the pool is not much. The accounts are currently standard and not even under SMA.
- Management don't expect total stress pool to fall into NPA and with the expectation of LGD around 25-30% on the stress pool, management increases credit cost guidance by 35-40 bps to 1.5% for FY20. NPA and credit cost will peak in FY20 and will normalise in the next financial year.
- Management added that the ROA target of 1.4-1.5% for the company may be postponed by 1-2 quarters considering the High levels of NPA and credit cost.
- Management has maintained cost to income guidance of 51-52% for FY20.
- Management has guided the for the Net profit growth of low to mid twenty % in FY20 and key drivers for it would be NIM improvement, fall in cost of fund, growth in other income, other cost benefits.
- The Opex growth for FY20 is expected to be in range of 40%. The rise in the other opex for the quarter was on account of IFC loan taken which results in payment of fees.
- The advance growth is expected to be around 30% range for the year.
- Management has seen easing of deposits rate and narrowing of the spreads for the better rated corporates.
- During the quarter the Improvement in yield on advances is primarily on account of the changing mix in favour of non-wholesale business.
- Total core fee income from retail is approximately 70% of total core fee income.
- 55% of micro banking book and 93% of MSME book originates directly by RBL FinServ. Overall credit environment in micro banking is stable however management is watchful. The average ticket size on new disbursement is around Rs 33000 and average outstanding per customer is little below Rs 19000.
- On impact of cyclone in Orissa last quarter management said they have seen strong bounce back in collection.
- Management added total of 8 branches this quarter and is planning to add 60-80 branches for the year.
- The cost of saving account in range of 6.5%. The ticket size in saving business for retail is Rs 80000-100000.
- On capital raising plan management said that at current levels they are comfortable till the end of the year.
- Single largest exposure on a group basis would be 15% of net worth.

Profitability Matrix

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	54.0	52.8	50.8	51.5	51.6	51.2	52.3	1.55	1.13
Empl. Cost/ Tot. Exp. %	36.6	30.4	34.3	31.6	30.9	28.6	27.1	-7.13	-1.46
Other Exp/Tot. Exp.%	63.4	69.6	65.7	68.4	69.1	71.4	72.9	7.13	1.46
Provision/PPP %	24.7	29.5	32.5	31.1	32.2	35.7	34.5	1.99	-1.26
Tax Rate %	34.2	34.1	34.9	33.9	33.3	31.3	34.2	-0.75	2.82
Int Exp./Int Inc. (%)	59.4	59.1	59.5	59.5	60.0	59.7	59.6	0.11	-0.13
Other Inc./Net Inc. %	35.6	38.4	37.1	36.0	36.3	35.6	37.1	-0.04	1.41
PAT/ Net Income %	22.8	21.9	21.6	22.1	21.9	21.5	20.6	-1.06	-0.97
RoE %	10.2	10.9	11.2	11.6	11.7	12.2	13.8	2.62	1.63
RoA %	1.2	1.3	1.3	1.3	1.3	1.3	1.3	0.05	0.04

Margin Performance

Margin %	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.4	10.5	10.8	10.9	11.2	11.8	12.0	1.20	0.20
Cost of Deposits	6.1	6.2	6.4	6.4	6.6	6.8	6.8	0.40	0.00
Cost Of Funds	6.4	6.5	6.6	6.7	6.8	6.9	7.0	0.40	0.10
NIM	3.9	4.0	4.0	4.1	4.1	4.2	4.3	0.27	0.08

Exhibit: Yield and Cost

Both yield on advance and cost of fund increased.

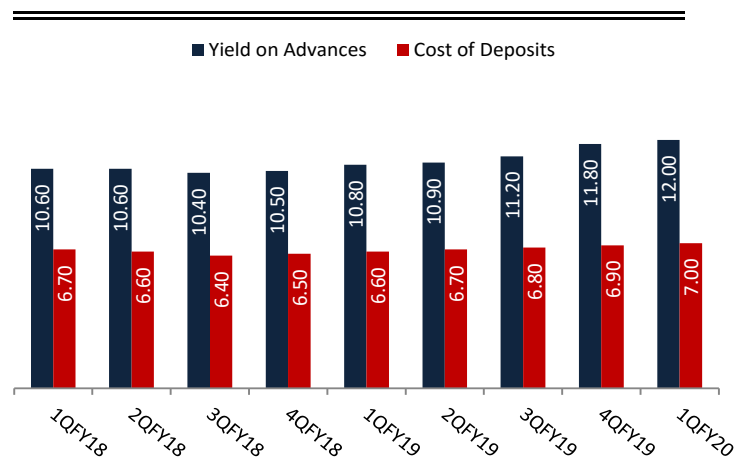
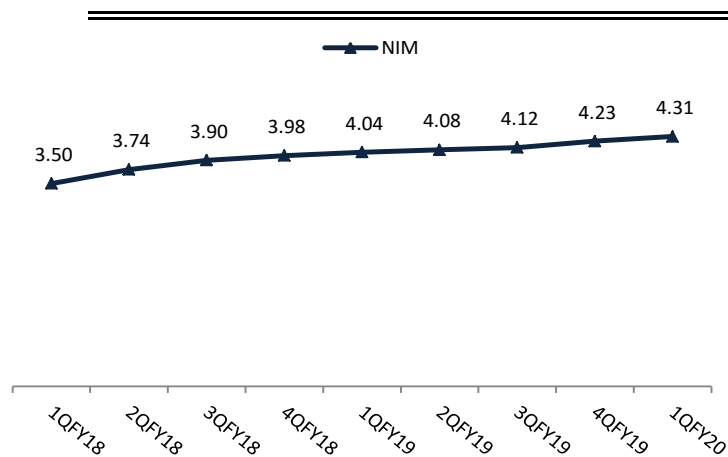


Exhibit: Net Interest Margin

NIM improvement continues



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

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
FX	35	35	35	38	35	39	38	47	45
Proc Fee	57	57	67	65	69	75	80	89	78
Gen Banking	27	30	28	38	35	46	48	43	49
Distribution	5		8	16	12	13	10	16	8
Credit card	42	59	70	88	116	130	142	159	193
Trade and Others	16	22	23	26	23	26	28	35	37
Total fee income	183	203	230	270	289	325	346	388	411
Growth YOY%	48.8	38.1	50.3	31.7	57.9	60.1	50.4	43.7	42.2
Trading - FICC	75	39	28	40	36	7	28	21	70
Total Other Income	257	241	258	312	326	333	374	409	481
Growth YOY%	53.3	42.6	41.7	31.9	26.9	38.0	44.9	31.1	47.6

Exhibit: Fee Income/Advances %

Fee income remains robust.

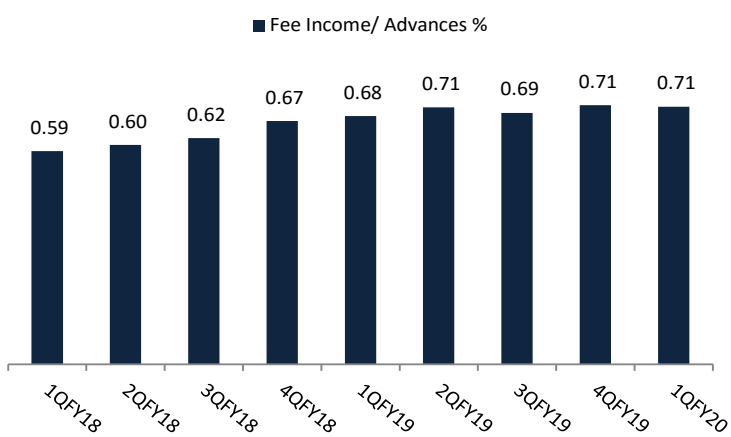
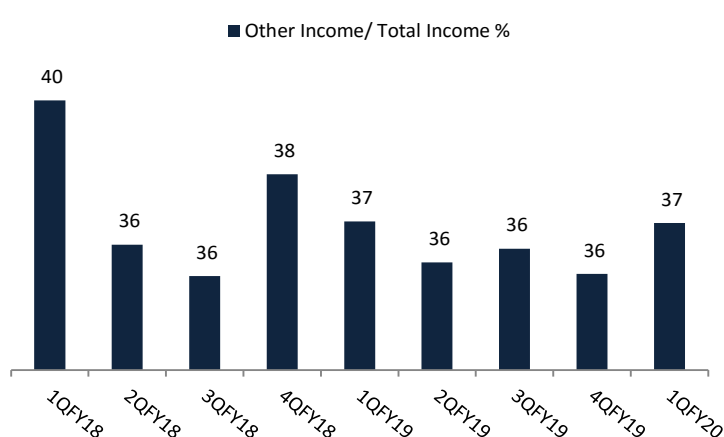


Exhibit: Other Income/ Total Income %

Other income remains stable



Asset Quality

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	580	567	597	644	696	755	789	32%	5%
GNPA %	1.56	1.40	1.40	1.40	1.38	1.38	1.38	-0.02	0
NNPA (Rs in Cr)	358	314	316	339	358	373	372	18%	0%
NNPA %	0.97	0.78	0.75	0.74	0.72	0.69	0.65	-0.10	-0.04
Slippages (Rs in Cr)	210	115	148	142	211	206	225	52%	9%
Std Restructured Assets %	0.18	0.08	0.10	0.07	0.09	0.04	0.06	-0.04	0.02
Net Stress Assets %	1	1	1	1	1	1	1	-0.19	-0.02
PCR %	53	58	60	61	63	65	69	8.70	3.80

GNPA Composition(%) – Segment-wise

	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20
C&IB	22	21	25	15	15	14	13	16	18
CB	31	25	18	22	37	40	36	31	31
Agri	19	21	19	20	28	31	41	45	44
BBB/Retail Assets	5	5	10	14	-	-	-	-	-
DB&FI	22	27	28	29	20	15	10	7	8

Exhibit: Asset Quality

Stable asset quality

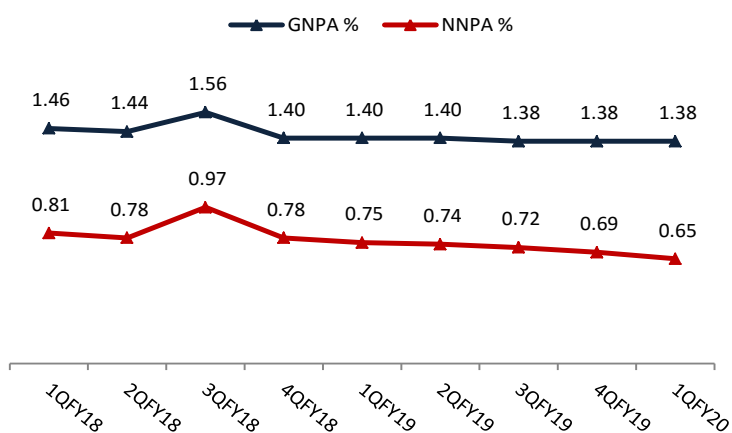


Exhibit: Provisions

PCR improved.

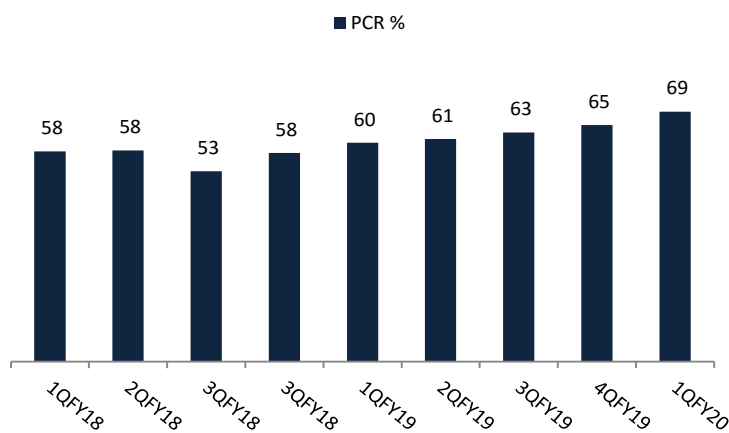


Exhibit: Advances Performance

Healthy advance growth

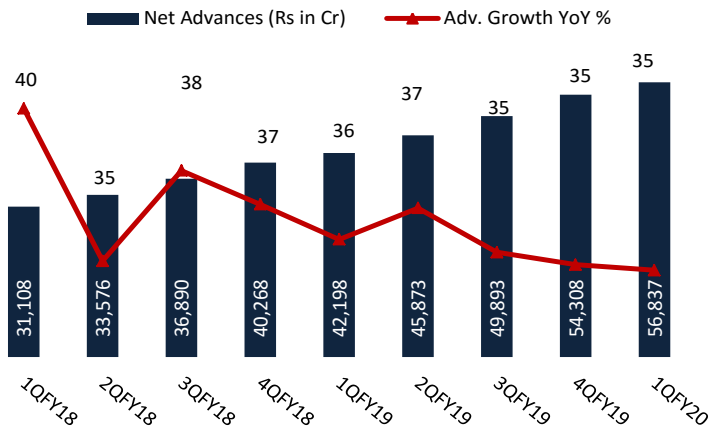


Exhibit: Advances Breakup%

Unsecured loan picking-up

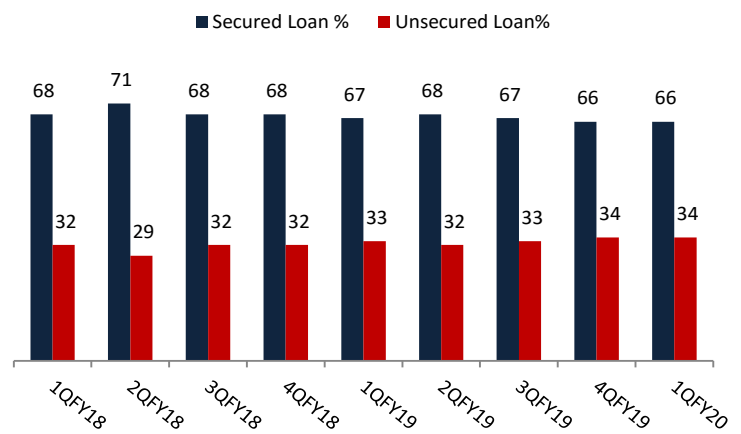


Exhibit: Deposits Performance

Deposits growth increased.

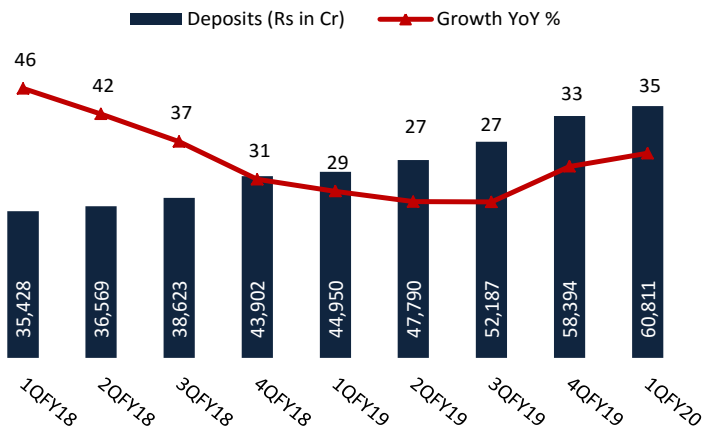


Exhibit: CASA Performance

CASA ratio improved

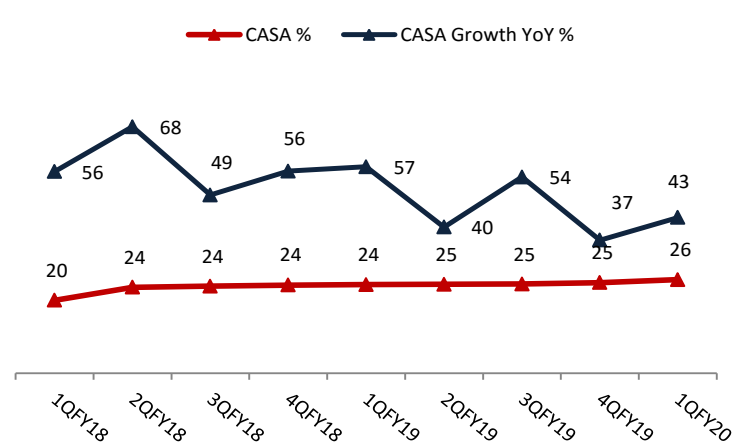


Exhibit: Credit Deposit Ratio

CD ratio went down

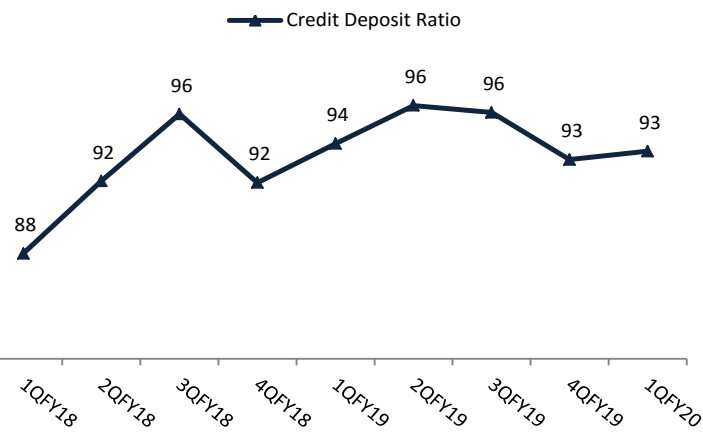
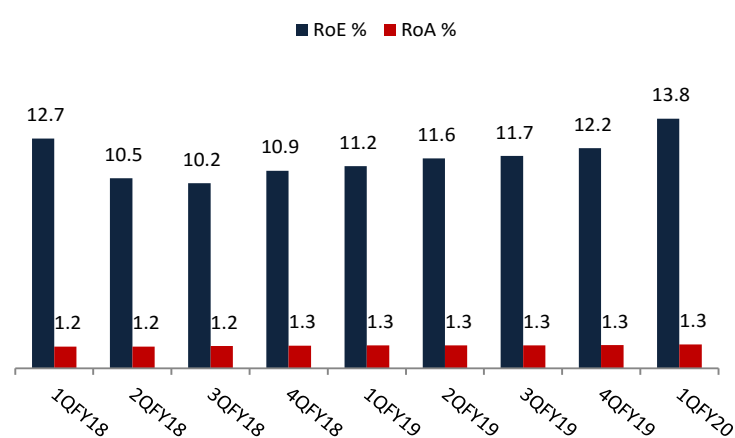


Exhibit: Return Ratios

Return ratio profile improved



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	8040	9620
Networth	2015	2230	2989	4336	6684	7547	8467	10046
Deposits	11599	17099	24349	34588	43902	58394	77082	98665
Change (%)	39	47	42	42	27	33	32	28
>> CASA Deposits	2370	3157	4529	7609	10678	14599	20041	27133
Change (%)	44	33	43	68	40	37	37	35
Borrowings	3896	6963	10536	7980	9262	11832	14517	18581
Other Liabilities & Provisions	689	812	1287	1771	2003	2585	2505	3207
Total Liabilities	18198	27105	39161	48675	61851	80359	102571	130500
Cash & Bank	1192	2170	2450	4194	4284	6602	5716	6605
Investments	6518	9792	14436	13482	15448	16840	21968	28120
Change (%)	17	50	47	-7	15	9	30	28
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	2757	3529
Total Assets	18198	27105	39161	48675	61851	80359	102571	130500

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	8,671	11,066
Interest expended	1,010	1,397	1,925	2,492	2,741	3,761	5,171	6,335
Net Interest Income	342	556	819	1,221	1,766	2,539	3,500	4,731
Change (%)	33	63	47	49	45	44	38	35
Other Income	261	403	491	755	1,068	1,442	1,947	2,432
Change (%)	106	55	22	54	41	35	35	25
>> Core Fee Income	217	341	430	628	886	1,348	1,777	2,235
>> Treasury Income	44	63	61	130	182	92	170	197
>> Others	-	-	-	(2)	1	3	0	0
Total Net Income	603	960	1,310	1,977	2,834	3,982	5,448	7,163
Operating Expenses	424	600	767	1,056	1,503	2,042	2,839	3,598
Change (%)	87	41	28	38	42	36	39	27
>> Employee Expenses	185	301	370	446	551	636	824	1,074
Pre-provisioning Profit	179	360	542	920	1,331	1,940	2,608	3,565
Change (%)	14	102	51	70	45	46	34	37
Provisions	86	153	114	239	365	641	1,004	916
Change (%)	34	78	-25	109	53	76	57	-9
PBT	93	207	428	682	967	1,299	1,605	2,649
Tax	-	-	136	235	331	432	546	901
Profit After Tax	93	207	292	446	635	867	1,058	1,749
Change (%)	0	124	41	53	42	37	22	65

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	32	28
C/D Ratio (%)	85	85	87	85	92	93	93	93
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	10.7
>> Tier 1 (%)	14.3	12.7	11.1	11.4	13.6	12.1	10.2	9.5
>> Tier 2 (%)	0.3	0.4	1.8	2.3	1.7	1.4	1.5	1.2

Assets Quality Metrics

Gross NPA (Rs)	78	111	208	356	567	755	1,718	2,123
Gross NPA (%)	0.8	0.8	1.0	1.2	1.4	1.4	2.4	2.3
Net NPA(Rs)	31	39	124	190	314	373	807	977
Net NPA (%)	0.3	0.3	0.6	0.6	0.8	0.7	1.1	1.1
Slippages (%)	1.0	0.5	1.4	2.5	1.9	1.8	3.0	1.7
Provision Coverage (%)	-	-	56	60	58	65	68	70
Provision/Average Advances (%)	1.1	1.3	0.6	0.9	1.0	1.4	1.6	1.1

Margin Metrics

Yield On Advances (%)	11.4	11.6	10.9	10.4	9.8	10.7	11.4	11.4
Yield On Investment (%)	6.8	6.4	6.2	7.0	6.9	6.8	6.7	6.3
Yield on Earning Assets (%)	9.2	9.2	8.8	9.0	8.7	9.5	10.1	9.9
Cost Of Deposits (%)	7.7	7.6	7.3	6.7	6.0	6.3	6.7	6.3
Cost Of Funds (%)	10.0	9.6	7.3	6.4	5.7	6.0	6.3	6.0
Spread (%)	(0.8)	(0.3)	1.4	2.7	3.1	3.5	3.8	3.9
NIM (%)	2.3	2.6	2.6	3.0	3.4	3.8	4.1	4.2

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.7	71.5	70.1	67.1	60.8	59.7	59.6	57.2
Fee Income/NII (%)	-	-	-	51.4	50.2	53.1	50.8	47.2
Cost to Income (%)	70.4	62.5	58.6	53.4	53.0	51.3	52.1	50.2
Cost on Average Assets (%)	2.9	2.8	2.4	2.6	2.9	3.1	3.3	3.2
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	24.8	41.0
Change (%)	(7.1)	107.3	27.6	32.0	27.3	34	22.1	65.2
ROAE (%)	5.1	9.8	11.2	12.2	11.5	12.2	13.2	18.9
ROAA (%)	0.6	0.9	0.9	1.0	1.1	1.2	1.2	1.5
Dividend Payout (%)	-	-	-	15.1	13.9	13.3	13.3	9.8
Dividend yield (%)	-	-	-	0.4	0.4	0.4	0.7	0.8
Book Value (Rs)	74	76	92	116	159	177	198	235
Change (%)	17	3	21	26	38	11	12	19
ABVPS (Rs)	73	75	88	110	152	168	179	213
P/B (X)	-	-	-	4.3	3.0	3.8	2.5	2.1
P/E (X)	-	-	-	41.6	31.5	33.5	20.2	12.2

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	9.5	9.5
<i>Interest expended</i>	6.2	5.8	5.7	5.0	5.3	5.7	5.4
<i>Net Interest Income</i>	2.5	2.5	2.8	3.2	3.6	3.8	4.1
<i>Non-Fund Based Income</i>	1.8	1.5	1.7	1.9	2.0	2.1	2.1
>> 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	0.2	0.2
Core Operating Income	4.0	3.8	4.2	4.8	5.5	5.8	6.0
<i>Total Income</i>	4.2	4.0	4.5	5.1	5.6	6.0	6.1
Total Operating Expenses	2.6	2.3	2.4	2.7	2.9	3.1	3.1
>> 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	2.2	2.2
<i>Operating Profit</i>	1.6	1.6	2.1	2.4	2.7	2.9	3.1
Provisions	0.7	0.3	0.5	0.7	0.9	1.1	0.8
Others	-	-	-	-	-	-	-
PBT	0.9	1.3	1.6	1.7	1.8	1.8	2.3
Tax	-	0.4	0.5	0.6	0.6	0.6	0.8
<i>PAT/RoAA</i>	0.9	0.9	1.0	1.1	1.2	1.2	1.5
<i>Equity Multiplier (x)</i>	10.7	12.7	12.0	10.0	10.0	11.4	12.6
<i>ROAE</i>	9.8	11.2	12.2	11.5	12.2	13.2	18.9

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Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

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