

RBL Bank Limited

Industry	Financial
Bloomberg	RBK IN
BSE CODE	540065

Increase in stress levels in book to impact near term profitability

RATING	NEUTRAL
CMP	287
Price Target	314
Potential Upside	9%

Rating Change	↓
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	716/242
Mkt Capital (Rs Cr)	12,350
Free float (%)	100
Avg. Vol 1M (,000)	16,527
No. of Shares (Cr)	430
Promoters Pledged %	

fig in Rs cr

FINANCIAL	FY19	FY20E	FY21E
NII	2539	3468	4446
PPP	1940	2579	3287
PAT	867	636	1710
NIM %	3.8	4.1	4.1
EPS (Rs)	20	15	40
EPS growth	34	-27	169
ROE (%)	12	8	19
ROA (%)	1.2	0.7	1.5
BV	177	189	225
P/B (X)	3.8	1.5	1.3
P/E (x)	33	19	7

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2QFY20 Result Update

- ❑ PAT during the quarter was under pressure down 74% YoY with Bank taking high level of provisioning which grew by 282% YoY. Bank has exposure to 4 groups of total stressed exposure worth Rs 1800 Cr out of which Rs 800 Cr was recognised as NPA during the quarter and Rs 350 Cr was taken as provision.
- ❑ Slippages increased to Rs 1377 Cr vs Rs 225 QoQ. GNPA increased to 2.6% from 1.38% QoQ and NNPA increased to 1.56% from 0.65% QoQ.
- ❑ Advance growth during the quarter moderated to 28% YoY/3% QoQ with wholesale book growing only 12% YoY the deposits during the quarter grew by 31% YoY with CASA growth of 42% YoY.

High level of slippages

The asset quality during the quarter took a severe beating with slippages rising to Rs 1377 Cr v/s 142 Cr in Q2FY19. The GNPA stood at 2.60% v/s 1.38% in Q1FY20 while the NNPA stood at 1.56% v/s 0.65% in Q1FY20. During the quarter Management had recognized additional NPA of Rs 800 Cr from the stress book of Rs 1800 Cr from 4 groups and had taken provision of Rs 350 Cr on the same which represent half of both NPA and provision which bank may need to take going forward, significant of remaining will come in next quarter and remaining in last quarter after that management think they will return to normal level of profitability. The SMA 1 is 0.45% and 0.39% SMA 2 and without stressed group SMA 1 is 0.30% and SMA 2 is 0.22%.

Healthy NII growth

NII for the quarter grew by 47% YoY to Rs 869 Cr with NIM expanding 22 bps YoY to 4.30% with increase in yield by 10 bps QoQ. The increase in yield has primarily on account of change in business mix towards retail assets. The cost of fund was stable at 6.8%, while the cost of deposit grew by 20 bps YoY to 6.9% while it decreased QoQ by 10 bps. Fee income growth remained healthy at 19% YoY mainly on account of healthier growth in credit card fee. Treasury gain was Rs 53 Cr vs Rs 7 Cr YoY. Overall other income grew by 33% YoY. The cost to income ratio for the bank stood at 51.5%. Total operating expenses grew by 41% YoY. The C/I ratio is expected to remain in the range of 52% for FY20.

Advance growth moderated

Advance growth during the quarter moderated to 28% YoY/3% QoQ with growth in the wholesale book moderating to 12% YoY. The Non wholesale book grew by 49% YoY/7% QoQ with BBB book growing by 62% YoY and DB&FI book growing 24% YoY and MSME book growing by 52% YoY. The ratio between secured and unsecured advance stood at 64:36. The management said that the reason for slow growth in wholesale book was that it is looking to grow its book more granular. The deposits grew by 31% YoY/3% QoQ with CASA growing 42% YoY and term deposits growing 28% YoY.

View and Valuation

Deterioration in assets quality surpassed the previous guidance of management. Stress in the book has increased to Rs 1800 Cr from earlier indicated level of Rs 1000 Cr. Despite Rs 800 Cr slippages from stress book, slippages were higher from other segment reflecting huge pressure on asset quality front. Issues in assets quality is likely to put brake on stellar performance on operating parameter. Due to higher exposure on stressed sector, asset quality will and credit cost will continue to remain under pressure. We reduce our earnings estimate by 50% for FY20 and cut the target price to Rs 314 at 1.4x BV FY21e and downgrade to Neutral.

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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2QFY20 Results

Pat below estimates

fig in Rs cr										
Financials	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Interest Inc.	1,463	1,639	1,834	2,023	2,126	45%	5%	4,508	6,301	39.8%
Interest Exp.	870	984	1,095	1,205	1,257	44%	4%	2,741	3,761	37.2%
NII	593	655	739	817	869	46%	6%	1,766	2,539	43.8%
Other Income	333	374	409	481	442	33%	-8%	1,068	1,442	35.0%
Total Income	926	1,029	1,148	1,299	1,310	41%	1%	2,834	3,982	40.5%
Ope Exp.	477	531	588	680	674	41%	-1%	1,503	2,042	35.8%
PPP	449	498	560	619	636	42%	3%	1,331	1,940	45.7%
Provisions	140	161	200	213	533	282%	150%	365	641	75.8%
PBT	309	338	360	406	103	-67%	-75%	967	1,299	34.4%
Tax	105	113	113	139	48	-54%	-65%	331	432	30.4%
Net Profit	205	225	247	267	54	-73%	-80%	635	867	37%

Concall Highlights.

- Bank has added 14 branches during the quarter largely in metro and urban center and is on track to get 380-400 branches in total by the end of FY20.
- Management said that deterioration in the credit environment has had impact on the bank more than they initially anticipated and resolutions have also been slower.
- Bank has reassessed its book as has decided to be conservative in terms of problem recognition and provisioning which it might need to take.
- Management expects the total stressed / NPA is conservatively approx.Rs. 1,800 Cr. This includes the 4 groups((East based group, diversified media group, south based coffee group and west based plastics group plus a buffer).Management had recognized additional NPA of Rs 800 Cr and had taken provision of Rs 350 Cr on the same which represent half of both NPA and provision which bank may need to take, significant of remaining will come in next quarter and remaining in last quarter after that management think they will return to normal level of profitability..
- Management is seeing stress in certain specific accounts and not to any given sector. On real estate book of around Rs 2500 Cr which is fully secured bank has average ticket per client of approximately Rs 57 Cr, there is no SMA1 or SMA 2 on the book and largest ticket size is around Rs 500 Cr backed by LC from AA rated middle east bank. Average maturity of exposure between 1-2 years
- The construction book which is approximately Rs 4000 Cr has average ticket size per client of Rs 44 Cr the book also does not have SMA 1 or 2. 80% of the book has a maturity of less than 1 year. The NBFC Book is approximately Rs 4100 Cr out of which HFC is around Rs 900 Cr and balance is other NBFC and the exposures are fully secured with no SMA1 or SMA 2 with ticket size of Rs 115 Cr for HFC with average maturity of Rs 1 year and Rs 82 Cr with average maturity of 2-3 years for remaining NBFC. On power sector book worth Rs 2400 Cr average ticket size is Rs 52 Cr with no SMA 1 and SMA 2.
- The SMA 1 is 0.45% and 0.39% SMA 2 and without stressed group SMA 1 is 0.30% and SMA 2 is 0.22%.
- Bank expects profitability in the range of 75%-80% of the last year profits.
- The interest reversal during the quarter would be in the range of Rs 20 Cr.
- The GNPA in the card book is around 1.33%.
- The opex growth is due to continuous investment on retail franchise and growing of the credit cost franchise where the cost is up fronted.
- On wholesale book growing on lower side management said they are looking for more granular book and will follow the strategy going forward.

Profitability Matrix

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	52.8	50.8	51.5	51.6	51.2	52.3	51.5	-0.04	-0.87
Empl. Cost/ Tot. Exp. %	30.4	34.3	31.6	30.9	28.6	27.1	29.1	-2.56	1.92
Other Exp/Tot. Exp. %	69.6	65.7	68.4	69.1	71.4	72.9	70.9	2.56	-1.92
Provision/PPP %	29.5	32.5	31.1	32.2	35.7	34.5	83.9	52.77	49.43
Tax Rate %	34.1	34.9	33.9	33.3	31.3	34.2	47.0	13.14	12.86
Int Exp./Int Inc. (%)	59.1	59.5	59.5	60.0	59.7	59.6	59.1	-0.34	-0.45
Other Inc./Net Inc. %	38.4	37.1	36.0	36.3	35.6	37.1	33.7	-2.27	-3.36
PAT/ Net Income %	21.9	21.6	22.1	21.9	21.5	20.6	4.1	-17.94	-16.42
RoE %	10.9	11.2	11.6	11.7	12.2	13.8	8.2	-3.39	-5.59
RoA %	1.3	1.3	1.3	1.3	1.3	1.3	0.8	-0.49	-0.54

Margin Performance

Margin %	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.5	10.8	10.9	11.2	11.8	12.0	12.1	1.20	0.10
Cost of Deposits	6.5	6.6	6.7	6.8	6.9	7.0	6.9	0.20	-0.10
Cost Of Funds	6.2	6.4	6.4	6.6	6.8	6.8	6.8	0.40	0.00
NIM	4.0	4.0	4.1	4.1	4.2	4.3	4.3	0.22	-0.01

Exhibit: Yield and Cost

yield on advance increased and cost of fund decreased.

■ Yield on Advances ■ Cost of Deposits

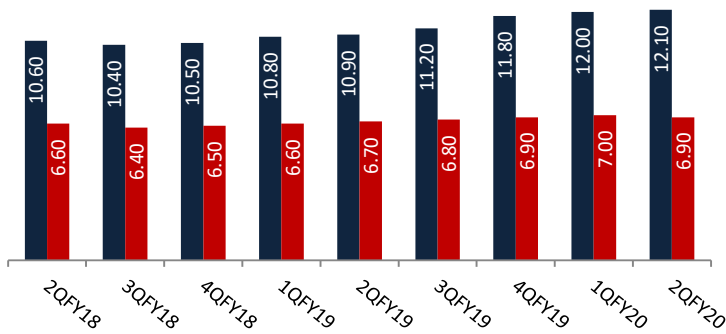
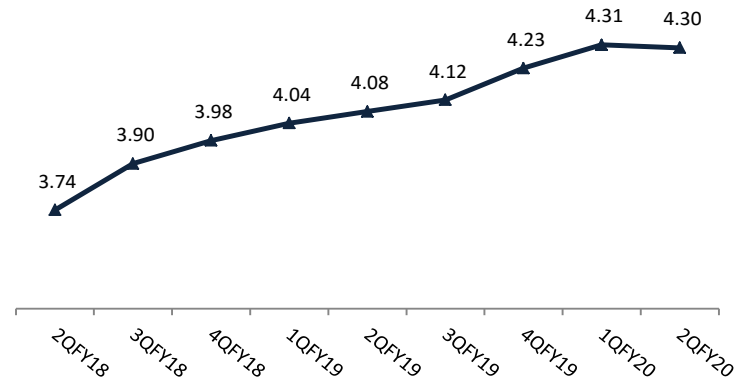


Exhibit: Net Interest Margin

Healthy NIM

▲ NIM



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

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
FX	35	35	38	35	39	38	47	45	39
Proc Fee	57	67	65	69	75	80	89	78	47
Gen Banking	30	28	38	35	46	48	43	49	35
Distribution	59	8	16	12	13	10	16	8	12
Credit card		70	88	116	130	142	159	193	221
Trade and Others	22	23	26	23	26	28	35	37	35
Total fee income	203	230	270	289	325	346	388	411	388
Growth YOY%	38.1	50.3	31.7	57.9	60.1	50.4	43.7	42.2	19.4
Trading - FICC	39	28	40	36	7	28	21	70	53
Other income	0	0	2	1	1				
Total Other Income	241	258	312	326	333	374	409	481	441
Growth YOY%	42.6	41.7	31.9	26.9	38.0	44.9	31.1	47.6	32.6

Exhibit: Fee Income/Advances %

Fee income remains robust.

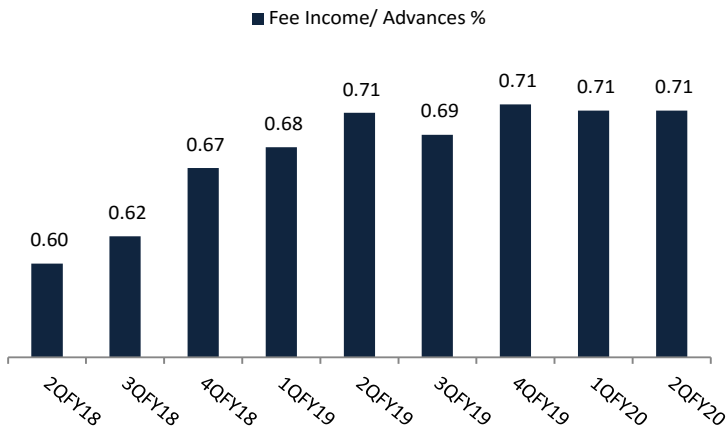
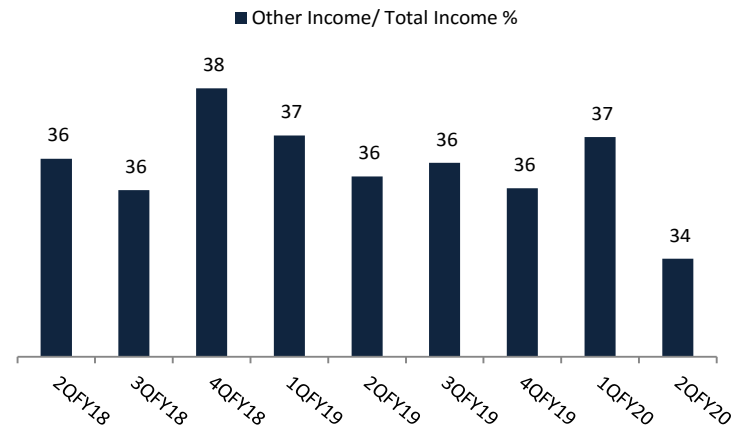


Exhibit: Other Income/ Total Income %

Other income remains healthy



Asset Quality

	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	567	597	644	696	755	789	1,538	139%	95%
GNPA %	1.40	1.40	1.40	1.38	1.38	1.38	2.60	1.2	1.22
NNPA (Rs in Cr)	314	316	339	358	373	372	912	169%	145%
NNPA %	0.78	0.75	0.74	0.72	0.69	0.65	1.56	0.82	0.91
Slippages (Rs in Cr)	115	148	142	211	206	225	1,377	870%	512%
Std Restructured Assets %	0.08	0.10	0.07	0.09	0.04	0.06	0.06	-0.01	0.00
Net Stress Assets %	1	1	1	1	1	1	2	0.75	0.91
PCR %	58	60	61	63	65	66	58	-3.00	-7.85

GNPA Composition(%) – Segment-wise

	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
C&IB	103	142	83	92	92	92	122	140	842
CB	124	106	126	219	255	250	237	242	199
Agri	26	58	82	-	-	-	-	-	-
BBB/Retail Assets	104	111	113	168	201	287	340	348	421
DB&FI	131	164	163	117	97	67	56	60	77

Exhibit: Asset Quality

Stable asset worsen

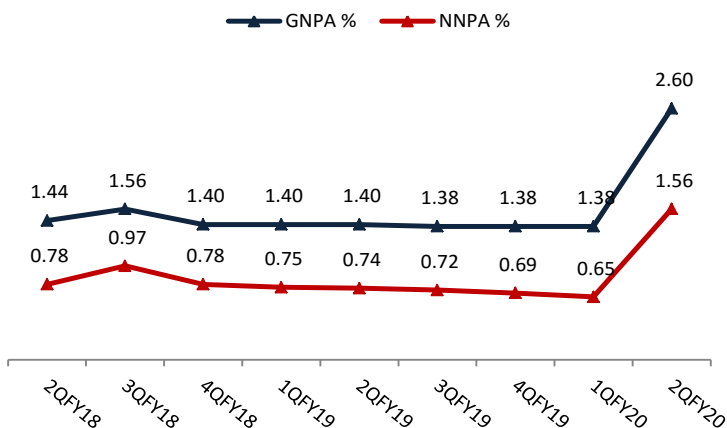


Exhibit: Provisions

PCR decreased

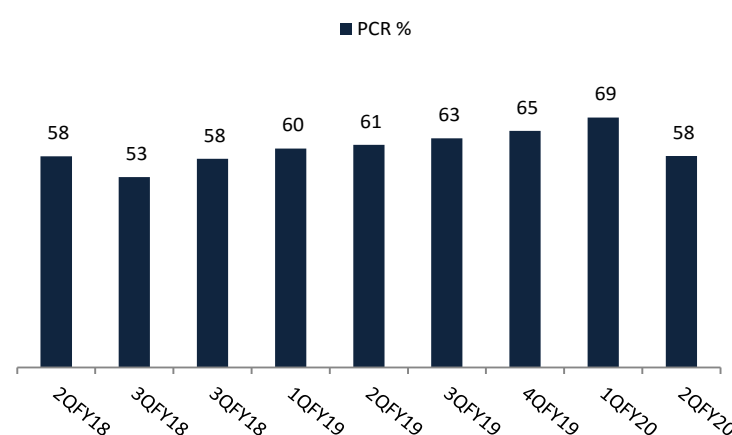


Exhibit: Advances Performance

advance growth moderated

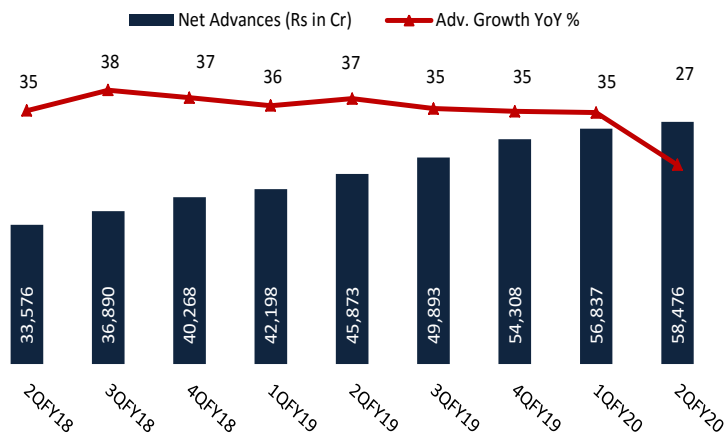


Exhibit: Advances Breakup%

Unsecured loan picking-up

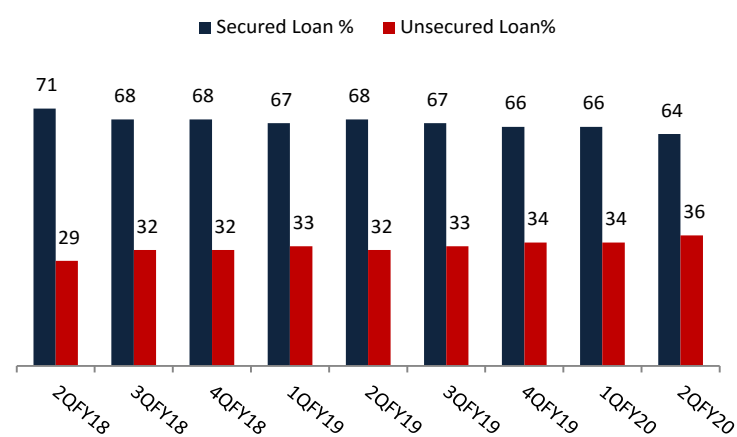


Exhibit: Deposits Performance

Deposits growth moderated

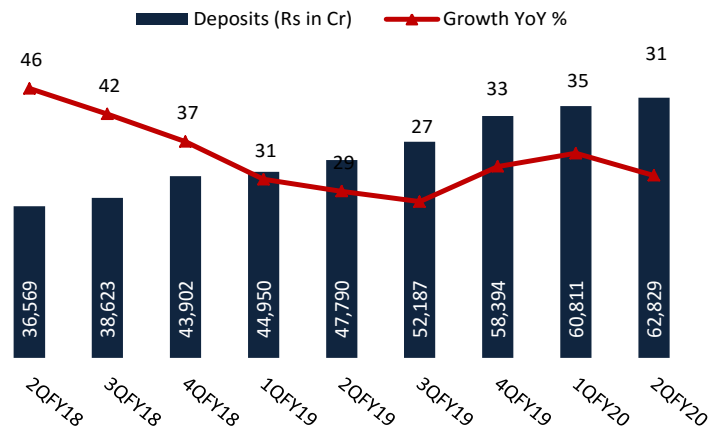


Exhibit: CASA Performance

CASA ratio improved

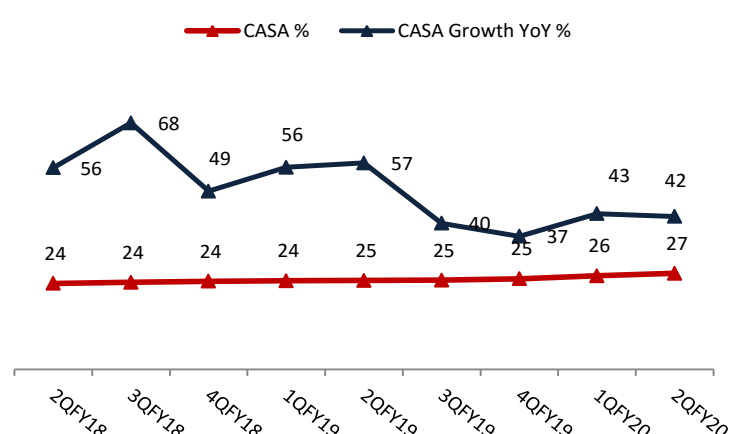


Exhibit: Credit Deposit Ratio

CD ratio went down

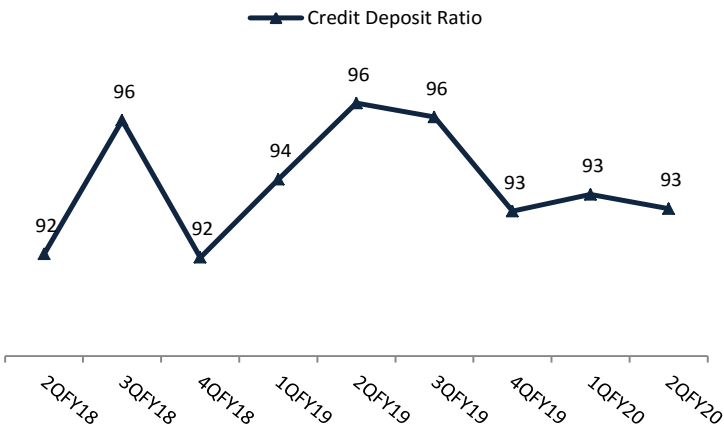
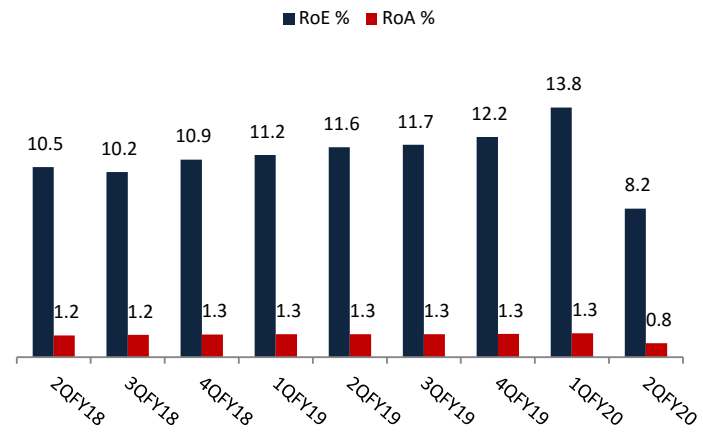


Exhibit: Return Ratios

Return ratio profile decreased



Financial Details

Balance Sheet

fig in Rs cr

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	7618	9159
Networth	2015	2230	2989	4336	6684	7547	8045	9586
Deposits	11599	17099	24349	34588	43902	58394	74746	97170
Change (%)	39	47	42	42	27	33	28	30
>> CASA Deposits	2370	3157	4529	7609	10678	14599	19434	26722
Change (%)	44	33	43	68	40	37	33	38
Borrowings	3896	6963	10536	7980	9262	11832	14531	18890
Other Liabilities & Provisions	689	812	1287	1771	2003	2585	2429	3158
Total Liabilities	18198	27105	39161	48675	61851	80359	99751	128804
Cash & Bank	1192	2170	2450	4194	4284	6602	5628	6408
Investments	6518	9792	14436	13482	15448	16840	21303	27694
Change (%)	17	50	47	-7	15	9	26	30
Advances	9835	14450	21229	29449	40268	54308	69514	90369
Change (%)	54	47	47	39	37	35	28	30
Fixed Assets	134	164	177	259	334	402	443	487
Other Assets	518	528	869	1292	1517	2206	2863	3847
Total Assets	18198	27105	39161	48675	61851	80359	99751	128804

Income Statement

fig in Rs cr

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	8,531	10,564
Interest expended	1,010	1,397	1,925	2,492	2,741	3,761	5,062	6,118
Net Interest Income	342	556	819	1,221	1,766	2,539	3,468	4,446
Change (%)	33	63	47	49	45	44	37	28
Other Income	261	403	491	755	1,068	1,442	1,883	2,263
Change (%)	106	55	22	54	41	35	31	20
>> Core Fee Income	217	341	430	628	886	1,348	1,712	2,198
>> Treasury Income	44	63	61	130	182	92	170	65
>> Others	-	-	-	(2)	1	3	1	(0)
Total Net Income	603	960	1,310	1,977	2,834	3,982	5,351	6,709
Operating Expenses	424	600	767	1,056	1,503	2,042	2,772	3,422
Change (%)	87	41	28	38	42	36	36	23
>> Employee Expenses	185	301	370	446	551	636	799	1,006
Pre-provisioning Profit	179	360	542	920	1,331	1,940	2,579	3,287
Change (%)	14	102	51	70	45	46	33	27
Provisions	86	153	114	239	365	641	1,649	992
Change (%)	34	78	-25	109	53	76	157	-40
PBT	93	207	428	682	967	1,299	930	2,295
Tax	-	-	136	235	331	432	294	585
Profit After Tax	93	207	292	446	635	867	636	1,710
Change (%)	0	124	41	53	42	37	-27	169

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	28	30
Deposit Growth (%)	39	47	42	42	27	33	28	30
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	11.4	10.4
>> Tier 1 (%)	14.3	12.7	11.1	11.4	13.6	12.1	9.9	9.2
>> 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	2,288	2,518
Gross NPA (%)	0.8	0.8	1.0	1.2	1.4	1.4	3.3	2.8
Net NPA(Rs)	31	39	124	190	314	373	1,075	1,158
Net NPA (%)	0.3	0.3	0.6	0.6	0.8	0.7	1.5	1.3
Slippages (%)	1.0	0.5	1.4	2.5	1.9	1.8	4.9	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	2.7	1.2

Margin Metrics

Yield On Advances (%)	11.4	11.6	10.9	10.4	9.8	10.7	11.2	11.0
Yield On Investment (%)	6.8	6.4	6.2	7.0	6.9	6.8	7.0	6.3
Yield on Earning Assets (%)	9.2	9.2	8.8	9.0	8.7	9.5	10.1	9.7
Cost Of Deposits (%)	7.7	7.6	7.3	6.7	6.0	6.3	6.6	6.2
Cost Of Funds (%)	10.0	9.6	7.3	6.4	5.7	6.0	6.3	5.9
Spread (%)	(0.8)	(0.3)	1.4	2.7	3.1	3.5	3.8	3.8
NIM (%)	2.3	2.6	2.6	3.0	3.4	3.8	4.1	4.1

Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.7	71.5	70.1	67.1	60.8	59.7	59.3	57.9
Fee Income/NII (%)	-	-	-	51.4	50.2	53.1	49.4	49.4
Cost to Income (%)	70.4	62.5	58.6	53.4	53.0	51.3	51.8	51.0
Cost on Average Assets (%)	2.7	2.6	2.3	2.4	2.7	2.9	3.1	3.0
Tax Rate (%)	-	-	31.7	34.5	34.3	33.3	31.6	25.5

Valuation Ratio Metrics

EPS (Rs)	3.4	7.1	9.0	11.9	15.1	20.3	14.9	40.1
Change (%)	(7.1)	107.3	27.6	32.0	27.3	34	(26.6)	168.7
ROAE (%)	5.1	9.8	11.2	12.2	11.5	12.2	8.2	19.4
ROAA (%)	0.6	0.9	0.9	1.0	1.1	1.2	0.7	1.5
Dividend Payout (%)	-	-	-	15.1	13.9	13.3	22.1	10.0
Dividend yield (%)	-	-	-	0.4	0.4	0.4	1.1	1.4
Book Value (Rs)	74	76	92	116	159	177	189	225
Change (%)	17	3	21	26	38	11	7	19
ABVPS (Rs)	73	75	88	110	152	168	163	197
P/B (X)	-	-	-	4.3	3.0	3.8	1.5	1.3
P/E (X)	-	-	-	41.6	31.5	33.5	19.2	7.2

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	9.2
<i>Interest expended</i>	6.2	5.8	5.7	5.0	5.3	5.6	5.4
<i>Net Interest Income</i>	2.5	2.5	2.8	3.2	3.6	3.9	3.9
<i>Non-Fund Based Income</i>	1.8	1.5	1.7	1.9	2.0	2.1	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	0.2	0.1
Core Operating Income	4.0	3.8	4.2	4.8	5.5	5.8	5.8
<i>Total Income</i>	4.2	4.0	4.5	5.1	5.6	5.9	5.9
Total Operating Expenses	2.6	2.3	2.4	2.7	2.9	3.1	3.0
>> 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	2.1
<i>Operating Profit</i>	1.6	1.6	2.1	2.4	2.7	2.9	2.9
Provisions	0.7	0.3	0.5	0.7	0.9	1.8	0.9
Others	-	-	-	-	-	-	-
PBT	0.9	1.3	1.6	1.7	1.8	1.0	2.0
Tax	-	0.4	0.5	0.6	0.6	0.3	0.5
<i>PAT/RoAA</i>	0.9	0.9	1.0	1.1	1.2	0.7	1.5
<i>Equity Multiplier (x)</i>	10.7	12.7	12.0	10.0	10.0	11.6	13.0
<i>ROAE</i>	9.8	11.2	12.2	11.5	12.2	8.2	19.4

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Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
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