

Industry  
Bloomberg  
BSE CODE

Financial  
RBK IN  
540065

RATING	NEUTRAL
CMP	336
Price Target	334
Potential Upside	-1%
Rating Change	↔
Estimate Change	↓
Target Change	↔

STOCK INFO	
52wk Range H/L	716/230
Mkt Capital (Rs Cr)	17,230
Free float (%)	100
Avg. Vol 1M (,000)	10,254
No. of Shares (Crs)	51
Promoters Pledged %	

Fig in Rs Cr

FINANCIAL	FY19	FY20E	FY21E
NII	2539	3550	4483
PPP	1940	2676	3255
PAT	867	582	1491
NIM %	3.8	4.4	4.4
EPS (Rs)	20	11	29
EPS growth (%)	34	-44	156
ROE (%)	12	6	13
ROA (%)	1.2	0.7	1.4
BV	177	210	236
P/B (X)	3.8	1.6	1.4
P/E (x)	33	29	11

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## Improvement in Profitability Continue to face Challenges

### 3QFY20 Result Update

- NII during the quarter grew by 41% YoY slowest of the last few quarters on account of loan growth moderating to 20% YoY. NIM remain strong at 4.57% with Yield on advances at 12.3% and cost of fund at 6.6%.
- Asset quality during the quarter deteriorated on accounts of high level of slippages. The GNPA stood at 3.33% v/s 2.60 QoQ while the NNPA stood at 2,07% v/s 1.56% QoQ. The slippages during the quarter stood at Rs 1048 Cr.
- Advance growth during the quarter moderated to 20%/2 on YoY/QoQ basis with wholesale book growing by meagre 3% YoY and branch and business banking growth slowing down to 49% YoY.

### Asset quality deteriorated.

Asset quality during the quarter was affected on account of the slippages remaining at elevated levels. The slippages stood at Rs 1048 Cr v/s Rs 221 Cr in Q3FY19. The GNPA stood at 3.33% v/s 2.60 QoQ while the NNPA stood at 2,07% v/s 1.56% QoQ. The upgrades during the quarter stood at Rs 46 Cr while the recoveries were Rs 88 Cr and the writeoff were Rs 443 Cr. Bank has recognized Rs 710 Cr of additional NPA from the stressed pool of Rs 1800 Cr previously outlined and has made provision of Rs 340 Cr on it. Management expects the tail of the remaining stress pool to go through in Q4FY20. The BB%Below book stood at 6.1% v/s 6% last quarter.

### Higher Credit cost Dampens the profitability

NII growth during the quarter moderated by 41% YoY on account of the slower advance growth which stood at 20% YoY, However the NIM remain strong at 4.57% with Yield on advances at 12.3% and cost of fund at 6.6%. Fee income during the quarter grew by 37% YoY with credit card fee income growing by 90% YoY, The other income grew by 30% YoY. Cost to income ratio during the quarter was 48% on account of certain provision on gratuity and bonus written back thus reducing employee cost, However the management expects it to be slightly higher than 50% in near term. Bank has opened 25 branches during the quarter and is on track to open 400 branches during the year. The provisions during the quarter stood at Rs 638 Cr v/s Rs 161 Cr YoY which dragged the profitability. Bank has made Rs 340 Cr of provision on the Stress pool.

### Advance growth moderated

Advance growth during the quarter stood at 20%/2 on YoY/QoQ basis with wholesale book growing by meagre 3% YoY and branch and business banking growth slowing down to 49% YoY. The Slow down in the wholesale book was as management was hesitant in taking new loan in the wholesale business in the prevailing environment and in line to further granualise the portfolio. In the non wholesale book credit cards grew by 109% YoY while the LAP book grew by 32% YoY. The deposits growth during the quarter slowed down to 21% YoY with CASA growth at 31% YoY and term deposit growth at 17% YoY. The CASA ratio at the end of the quarter stood at 26.8%.

### View and Valuation

Challenges continues on the asset quality front with elevated slippages. Out of disclosed Rs 1800 Cr of around Rs 1500 Cr has slipped into NPA. However, with the pressure in the economy, further deterioration is expected as rating profile its client discloses 6% of the exposure is still rated BB+ & below which remains stable sequentially. Lower specific PCR of 38% will keep credit cost elevated in the near term. Retail loan book and margin continues do expand well. Owing to the current environment and higher BB & Below pool of the bank we increase our credit cost estimate for FY21. We maintain Neutral View on the Bank with previous Target price of Rs 334 1.4x BV FY21e

### 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.

## 3QFY20 Results

### Pat below estimates

Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY%	QoQ%	FY18	FY19	YoY%
Interest Inc.	1,639	1,834	2,023	2,126	2,157	32%	1%	4,508	6,301	39.8%
Interest Exp.	984	1,095	1,205	1,257	1,235	25%	-2%	2,741	3,761	37.2%
NII	655	739	817	869	923	41%	6%	1,766	2,539	43.8%
Other Income	374	409	481	442	487	30%	10%	1,068	1,442	35.0%
Total Income	1,029	1,148	1,299	1,310	1,410	37%	8%	2,834	3,982	40.5%
Ope Exp.	531	588	680	674	677	28%	0%	1,503	2,042	35.8%
PPP	498	560	619	636	732	47%	15%	1,331	1,940	45.7%
Provisions	161	200	213	533	638	297%	20%	365	641	75.8%
PBT	338	360	406	103	94	-72%	-8%	967	1,299	34.4%
Tax	113	113	139	48	24	-79%	-50%	331	432	30.4%
Net Profit	225	247	267	54	70	-69%	29%	635	867	37%

### Concall Highlights.

- Bank had significant surplus liquidity throughout the quarter further enhanced by the capital raise of 2,700 Cr in December, 2019. The daily average LCR for the bank was 164% for the quarter.
- Cost to income was lower during the quarter benefits accruing on certain cost saving initiatives, However Banks expect cost to income ratio to be slightly higher than 50% in the near term.
- Bank has recognized Rs 710 Cr of additional NPA from the stressed pool of Rs 1800 Cr previously outlined and has made provision of Rs 340 Cr on it. Over 80% of previously outlined portfolio has been recognized as NPA. Management expect tail of portfolio to go through in Q4FY20.
- The slippage increase ex of the watchlist was on account of change in recognition policy from month end to daily basis
- In micro banking, There was some disturbances in the eastern part of the country. Assam was the first market to get affected, where five, six districts saw trouble on the call given by some local organizations, as the industry is trying to solve this. The state also saw unprecedented disruption to normal livelihoods and business operations with widespread protests across the state. The exposure to assam in regards to microfinance book is 3.97%. The collection efficiency was down to 85% but it is expected to improve going forward. The ticket size of new loan is Rs 29000 which is much below industry average of Rs 44000.
- Loan growth in the wholesale business was affected as the management was hesitant on taking on the new loans in wholesale business.
- Management expects to continue to see margin expansion but there might be some pressure on wholesale Fee as growth is coming down.
- Approximately Rs 700 Cr got added to the external downgrade during the quarter.
- SMA2 Book has very high to full overlap with the BB&BELOW book. SMA book is around 39 bps a marginal increase from last few quarters.
- 35% of the book is self employed and balance is salaried.
- Credit cost of cards went to 5% due to daily NPA. However is expected to stabilise to 4.5%-4.6% going forward.
- Interest reversal for the quarter is around Rs 20 Cr and last quarter it was on account of Rs 25-30 Cr.
- The dip in the employee expense was on account of the clawback of certain provisions on gratuity and bonus.

## Profitability Matrix

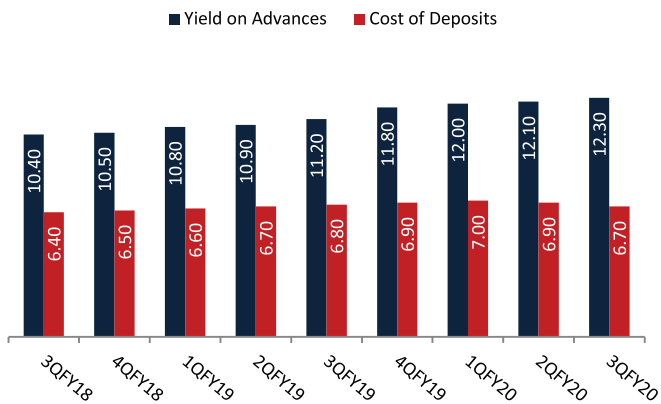
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
C/I Ratio %	50.8	51.5	51.6	51.2	52.3	51.5	48.1	-3.51	-3.41
Empl. Cost/ Tot. Exp. %	34.3	31.6	30.9	28.6	27.1	29.1	27.7	-3.17	-1.33
Other Exp/Tot. Exp.%	65.7	68.4	69.1	71.4	72.9	70.9	72.3	3.17	1.33
Provision/PPP %	32.5	31.1	32.2	35.7	34.5	83.9	87.2	54.94	3.30
Tax Rate %	34.9	33.9	33.3	31.3	34.2	47.0	25.2	-8.16	-21.85
Int Exp./Int Inc. (%)	59.5	59.5	60.0	59.7	59.6	59.1	57.2	-2.80	-1.91
Other Inc./Net Inc. %	37.1	36.0	36.3	35.6	37.1	33.7	34.5	-1.80	0.85
PAT/ Net Income %	21.6	22.1	21.9	21.5	20.6	4.1	5.0	-16.92	0.82
RoE %	11.2	11.6	11.7	12.2	13.8	8.2	8.8	-2.89	0.64
RoA %	1.3	1.3	1.3	1.3	1.3	0.8	0.5	-0.76	-0.27

## Margin Performance

MARGIN %	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
Yield on Advances	10.8	10.9	11.2	11.8	12.0	12.1	12.3	1.10	0.20
Cost of Deposits	6.6	6.7	6.8	6.9	7.0	6.9	6.7	-0.10	-0.20
Cost Of Funds	6.4	6.4	6.6	6.8	6.8	6.8	6.6	0.00	-0.20
NIM	4.0	4.1	4.1	4.2	4.3	4.3	4.6	0.45	0.27

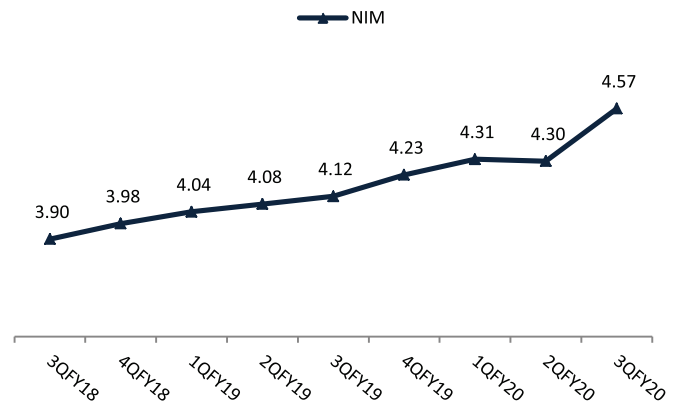
### Exhibit: Yield and Cost

yield on advance increased and cost of fund decreased.



### Exhibit: Net Interest Margin

Healthy NIM

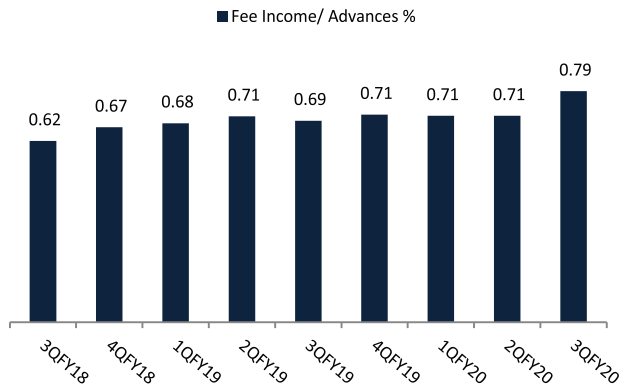


## Other Income Break Up- Card fee income drives other income growth

	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
FX	35	38	35	39	38	47	45	39	43
Proc Fee	67	65	69	75	80	89	78	47	52
Gen Banking	28	38	35	46	48	43	49	35	57
Distribution	8	16	12	13	10	16	8	12	14
Credit card	70	88	116	130	142	159	193	221	270
Trade and Others	23	26	23	26	28	35	37	35	43
<b>Total fee income</b>	<b>230</b>	<b>270</b>	<b>289</b>	<b>325</b>	<b>346</b>	<b>388</b>	<b>411</b>	<b>388</b>	<b>474</b>
<b>Growth YOY%</b>	<b>50.3</b>	<b>31.7</b>	<b>57.9</b>	<b>60.1</b>	<b>50.4</b>	<b>43.7</b>	<b>42.2</b>	<b>19.4</b>	<b>37.0</b>
Trading - FICC	28	40	36	7	28	21	70	53	13
Other income	0	2	1	1					
<b>Total Other Income</b>	<b>258</b>	<b>312</b>	<b>326</b>	<b>333</b>	<b>374</b>	<b>409</b>	<b>481</b>	<b>441</b>	<b>487</b>
<b>Growth YOY%</b>	<b>41.7</b>	<b>31.9</b>	<b>26.9</b>	<b>38.0</b>	<b>44.9</b>	<b>31.1</b>	<b>47.6</b>	<b>32.6</b>	<b>30.2</b>

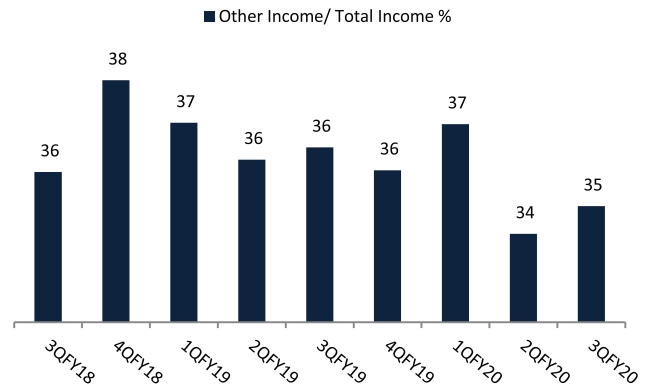
## Exhibit: Fee Income/Advances %

Fee income remains robust.



## Exhibit: Other Income/ Total Income %

Other income remains healthy



## Asset Quality

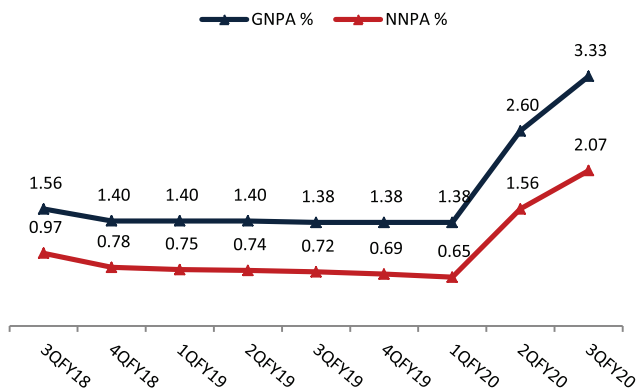
	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY (+/-)	QoQ (+/-)
GNPA (Rs in Cr)	597	644	696	755	789	1,538	2,009	189%	31%
GNPA %	1.40	1.40	1.38	1.38	1.38	2.60	3.33	1.95	0.73
NNPA (Rs in Cr)	316	339	358	373	372	912	1,236	245%	36%
NNPA %	0.75	0.74	0.72	0.69	0.65	1.56	2.07	1.35	0.51
Slippages (Rs in Cr)	148	142	211	206	225	1,377	1,048	397%	-24%
Std Restructured Assets %	0.10	0.07	0.09	0.04	0.06	0.06	0.06	-0.03	0.00
Net Stress Assets %	1	1	1	1	1	2	2	1.28	0.51
PCR %	60	61	63	65	66	58	59	-3.77	1.00

## GNPA Composition(%) – Segment-wise

	2QFY18	3QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
C&IB	25	15	15	14	13	16	18	55	68
CB	18	22	37	40	36	31	31	13	3
Agri	14	-							
BBB/Retail Assets	19	20	28	31	41	45	44	27	24
DB&FI	28	29	20	15	10	7	8	5	5

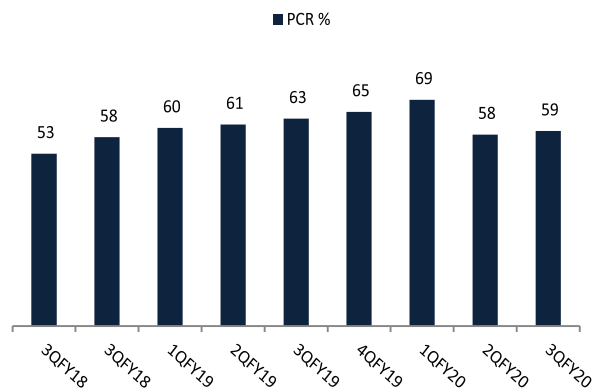
## Exhibit: Asset Quality

Asset quality Worsen



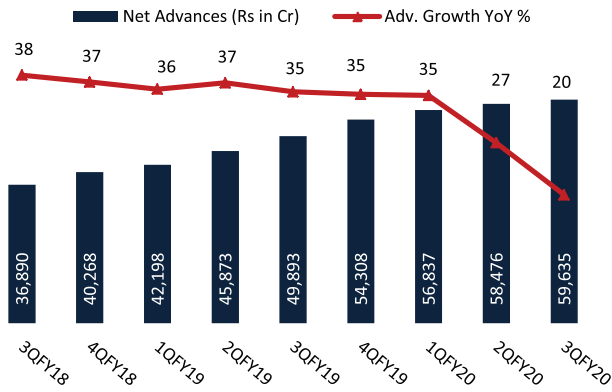
## Exhibit: Provisions

PCR decreased



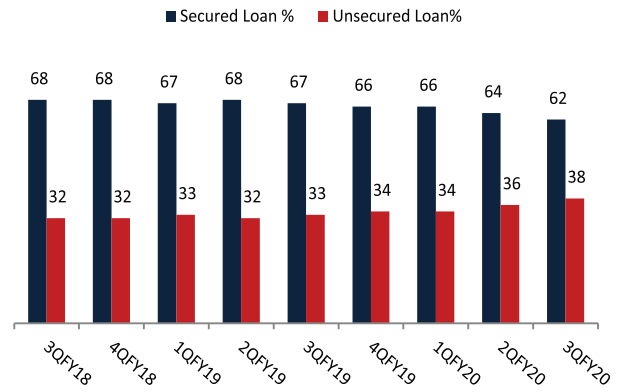
## Exhibit: Advances Performance

advance growth moderated



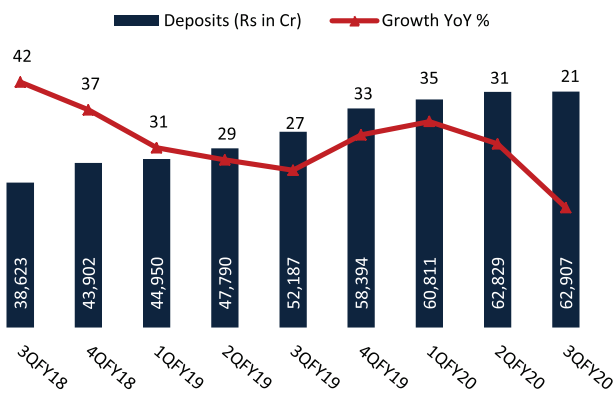
## Exhibit: Advances Breakup%

Unsecured loan picking-up



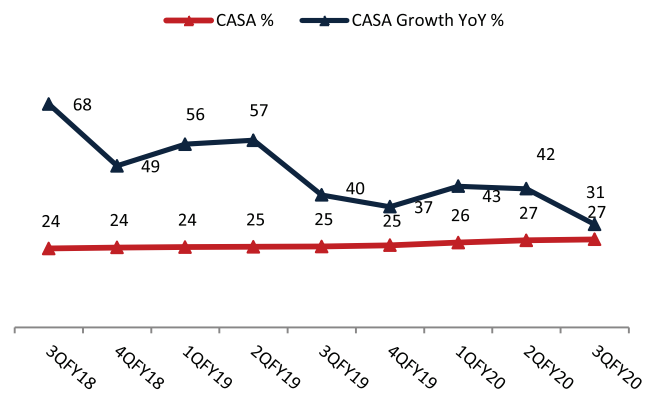
## Exhibit: Deposits Performance

Deposits growth moderated



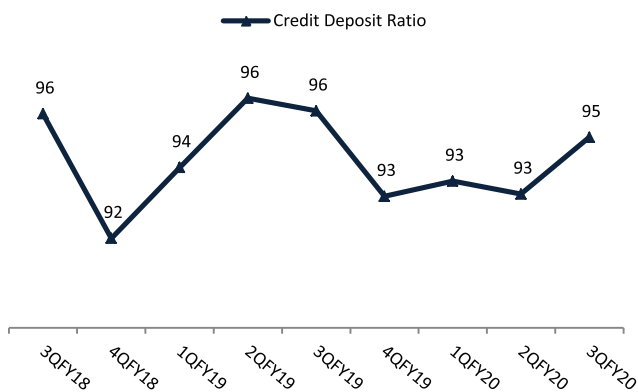
## Exhibit: CASA Performance

CASA ratio improved



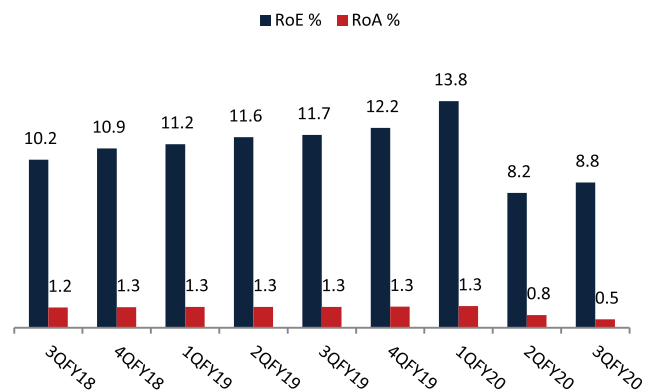
## Exhibit: Credit Deposit Ratio

CD ratio went up



## Exhibit: Return Ratios

Return ratio improved sequentially



## Financial Details

### Balance Sheet

Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Share Capital</b>	<b>272</b>	<b>293</b>	<b>325</b>	<b>375</b>	<b>420</b>	<b>427</b>	<b>508</b>	<b>508</b>
Equity Capital	272	293	325	375	420	427	508	508
Preference Capital	0	0	0	0	0	0	0	0
Reserves & Surplus	1743	1937	2665	3960	6264	7121	10187	11476
<b>Networth</b>	<b>2015</b>	<b>2230</b>	<b>2989</b>	<b>4336</b>	<b>6684</b>	<b>7547</b>	<b>10695</b>	<b>11984</b>
Deposits	11599	17099	24349	34588	43902	58394	68752	89377
Change (%)	39	47	42	42	27	33	18	30
CASA Deposits	2370	3157	4529	7609	10678	14599	18563	24132
Change (%)	44	33	43	68	40	37	27	30
Borrowings	3896	6963	10536	7980	9262	11832	13475	18613
Other Liabilities & Provisions	689	812	1287	1771	2003	2585	2234	2905
<b>Total Liabilities</b>	<b>18198</b>	<b>27105</b>	<b>39161</b>	<b>48675</b>	<b>61851</b>	<b>80359</b>	<b>95156</b>	<b>122879</b>
Cash & Bank	1192	2170	2450	4194	4284	6602	8007	9674
Investments	6518	9792	14436	13482	15448	16840	19594	25472
Change (%)	17	50	47	-7	15	9	16	30
Advances	9835	14450	21229	29449	40268	54308	64627	84014
Change (%)	54	47	47	39	37	35	19	30
Fixed Assets	134	164	177	259	334	402	443	487
Other Assets	518	528	869	1292	1517	2206	2486	3231
<b>Total Assets</b>	<b>18198</b>	<b>27105</b>	<b>39161</b>	<b>48675</b>	<b>61851</b>	<b>80359</b>	<b>95156</b>	<b>122879</b>

### 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	8,546	10,296
Interest expended	1,010	1,397	1,925	2,492	2,741	3,761	4,996	5,813
<b>Net Interest Income</b>	<b>342</b>	<b>556</b>	<b>819</b>	<b>1,221</b>	<b>1,766</b>	<b>2,539</b>	<b>3,550</b>	<b>4,483</b>
Change (%)	33	63	47	49	45	44	40	26
Other Income	261	403	491	755	1,068	1,442	1,875	2,160
Change (%)	106	55	22	54	41	35	30	15
Core Fee Income	217	341	430	628	886	1,348	1,725	2,099
Treasury Income	44	63	61	130	182	92	149	62
Others	-	-	-	(2)	1	3	1	(0)
Total Net Income	603	960	1,310	1,977	2,834	3,982	5,425	6,644
Operating Expenses	424	600	767	1,056	1,503	2,042	2,749	3,388
Change (%)	87	41	28	38	42	36	35	23
Employee Expenses	185	301	370	446	551	636	780	997
<b>Pre-provisioning Profit</b>	<b>179</b>	<b>360</b>	<b>542</b>	<b>920</b>	<b>1,331</b>	<b>1,940</b>	<b>2,676</b>	<b>3,255</b>
Change (%)	14	102	51	70	45	46	38	22
Provisions	86	153	114	239	365	641	1,820	1,263
Change (%)	34	78	-25	109	53	76	184	-31
PBT	93	207	428	682	967	1,299	856	1,992
Tax	-	-	136	235	331	432	275	501
<b>Profit After Tax</b>	<b>93</b>	<b>207</b>	<b>292</b>	<b>446</b>	<b>635</b>	<b>867</b>	<b>582</b>	<b>1,491</b>
Change (%)	0	124	41	53	42	37	-33	156

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Balance Sheet Metrics</b>								
Loan Growth (%)	54	47	47	39	37	35	19	30
Deposit Growth (%)	39	47	42	42	27	33	18	30
C/D Ratio (%)	85	85	87	85	92	93	94	94
CASA (%)	20	18	19	22	24	25	27	27
Investment/Deposit (%)	56	57	59	39	35	29	29	29
CRAR (%)	14.6	13.1	12.9	13.7	15.3	13.5	15.6	13.4
Tier 1 (%)	14.3	12.7	11.1	11.4	13.6	12.1	14.0	12.2
Tier 2 (%)	0.3	0.4	1.8	2.3	1.7	1.4	1.6	1.3

### Assets Quality Metrics

Gross NPA (Rs)	78	111	208	356	567	755	1,950	1,493
Gross NPA (%)	0.8	0.8	1.0	1.2	1.4	1.4	3.0	1.8
Net NPA (Rs)	31	39	124	190	314	373	1,187	801
Net NPA (%)	0.3	0.3	0.6	0.6	0.8	0.7	1.8	1.0
Slippages (%)	1.0	0.5	1.4	2.5	1.9	1.8	5.9	1.9
Provision Coverage (%)	-	-	56	60	58	65	47	56
Provision/Average Advances (%)	1.1	1.3	0.6	0.9	1.0	1.4	3.1	1.7

### Margin Metrics

Yield On Advances (%)	11.4	11.6	10.9	10.4	9.8	10.7	11.7	11.5
Yield On Investment (%)	6.8	6.4	6.2	7.0	6.9	6.8	7.6	7.0
Yield on Earning Assets (%)	9.2	9.2	8.8	9.0	8.7	9.5	10.5	10.2
Cost Of Deposits (%)	7.7	7.6	7.3	6.7	6.0	6.3	6.8	6.3
Cost Of Funds (%)	10.0	9.6	7.3	6.4	5.7	6.0	6.5	6.0
Spread (%)	(0.8)	(0.3)	1.4	2.7	3.1	3.5	4.1	4.1
NIM (%)	2.3	2.6	2.6	3.0	3.4	3.8	4.4	4.4

### Profitability & Efficiency Metrics

Int. Expense/Int.Income (%)	74.7	71.5	70.1	67.1	60.8	59.7	58.5	56.5
Fee Income/NII (%)	-	-	-	51.4	50.2	53.1	48.6	46.8
Cost to Income (%)	70.4	62.5	58.6	53.4	53.0	51.3	50.7	51.0
Cost on Average Assets (%)	2.7	2.6	2.3	2.4	2.7	2.9	3.1	3.1
Tax Rate (%)	-	-	31.7	34.5	34.3	33.3	32.1	25.2

### Valuation Ratio Metrics

EPS (Rs)	3.4	7.1	9.0	11.9	15.1	20.3	11.4	29.3
Change (%)	(7.1)	107.3	27.6	32.0	27.3	34	(43.7)	156.3
ROAE (%)	5.1	9.8	11.2	12.2	11.5	12.2	6.4	13.1
ROAA (%)	0.6	0.9	0.9	1.0	1.1	1.2	0.7	1.4
Dividend Payout (%)	-	-	-	15.1	13.9	13.3	28.8	13.6
Dividend yield (%)	-	-	-	0.4	0.4	0.4	1.0	1.2
Book Value (Rs)	74	76	92	116	159	177	210	236
Change (%)	17	3	21	26	38	11	19	12
ABVPS (Rs)	73	75	88	110	152	168	187	220
P/B (X)	-	-	-	4.3	3.0	3.8	1.6	1.4
P/E (X)	-	-	-	41.6	31.5	33.5	29.4	11.5



## Financial Details

### Exhibit: DuPont Analysis

	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Interest Income	8.6	8.3	8.5	8.2	8.9	9.7	9.4
Interest expended	6.2	5.8	5.7	5.0	5.3	5.7	5.3
<b>Net Interest Income</b>	<b>2.5</b>	<b>2.5</b>	<b>2.8</b>	<b>3.2</b>	<b>3.6</b>	<b>4.0</b>	<b>4.1</b>
Non-Fund Based Income	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	2.0	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	6.0	6.0
<b>Total Income</b>	<b>4.2</b>	<b>4.0</b>	<b>4.5</b>	<b>5.1</b>	<b>5.6</b>	<b>6.2</b>	<b>6.1</b>
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
<b>Operating Profit</b>	<b>1.6</b>	<b>1.6</b>	<b>2.1</b>	<b>2.4</b>	<b>2.7</b>	<b>3.0</b>	<b>3.0</b>
Provisions	0.7	0.3	0.5	0.7	0.9	2.1	1.2
Others	-	-	-	-	-	-	-
PBT	0.9	1.3	1.6	1.7	1.8	1.0	1.8
Tax	-	0.4	0.5	0.6	0.6	0.3	0.5
<b>PAT/RoAA</b>	<b>0.9</b>	<b>0.9</b>	<b>1.0</b>	<b>1.1</b>	<b>1.2</b>	<b>0.7</b>	<b>1.4</b>
Equity Multiplier (x)	10.7	12.7	12.0	10.0	10.0	9.6	9.6
<b>ROAE</b>	<b>9.8</b>	<b>11.2</b>	<b>12.2</b>	<b>11.5</b>	<b>12.2</b>	<b>6.4</b>	<b>13.1</b>



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