



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Q1FY21 Result Update@ Dalal&Broacha

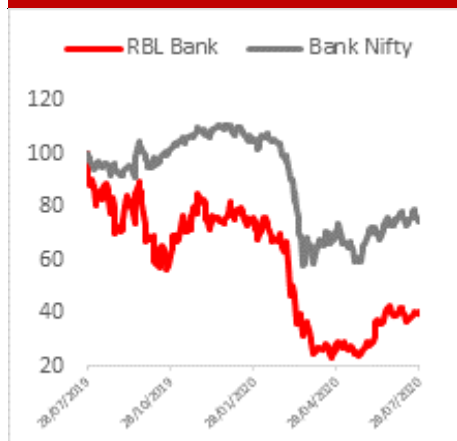
HOLD

Current Price	182
Target Price	192
Upside	6%
52 Week Range	101/465

Key Share Data

Market Cap (Rs.Bn)	92.51
Market Cap (US\$ Mn)	1235.94
No of o/s shares (Mn)	508.74
Face Value	10
BSE Code	540065
NSE Code	RBLBANK
Bloomberg	RBK:IN

Price performance



% Shareholding	Jun-20	Mar-20
FII	29.28	25.53
DII	22.44	25.42
Others	48.27	44.01
Total	100	100

RBL Bank's Q1FY21 performance was better than our estimates on the profitability front.

- NII came in at INR 10413 Mn, +2% QoQ / +27% YoY and 0.9% above our est.
- Other Income came in at INR 3333 Mn, -33% QoQ / -31% YoY and 9.7% below our est.
- PPOP came in at INR 6897 Mn, -8% QoQ / +11% YoY and 4.6% above our est.
- Provisions came in at INR 5002 Mn, -17% QoQ / +135% YoY and 2.6% below our est.
- PAT came in at INR 1412 Mn, -23% QoQ / -47% YoY and 29% above our est.
- EPS stood at INR 2.8 vs INR 2.2 / INR 6.2 in Q4FY20 / Q1FY20 respectively.

Asset Quality

- Bank's asset quality improved during Q1FY20, with GNPA's sequentially down by 17 bps at 3.45%, while NNPA's down by 40 bps to 1.65%. PCR has also improved by 883 bps QoQ to 53.2% and is expected to be increased further in upcoming quarters.
- Asset quality will remain under watch, with concerns leaning toward Retail as the COVID-19 outbreak would impact delinquency trends in the portfolios of Credit Cards, MFI and MSME.
- While overall loan book under moratorium has declined to 13.7% as on June 30 from 33% at the end of April 2020, ~ 30% of the non-wholesale book still remained under moratorium, with microfinance (35%) and credit cards (22%) having the highest incidence of those availing moratoriums. Thus, we expect credit cost trends to remain elevated in FY21.

Other Financial Highlights

- Bank's liability franchise was remained stable, with average LCR increased up to 164%, while current surplus liquidity stood at Rs 136 Bn. Bank's deposit grew by 2% YoY/7% QoQ led by CASA growth of 18% YoY/8% QoQ taking CASA ratio at 30.1% (Vs 25.8% YoY). Going forward in near term, Bank is looking to maintain surplus liquidity and high capital levels.
- Bank's operating efficiency improved during the quarter, with Cost-to-income (C/I) ratio for the quarter declined by 252 bps YoY / 76 bps QoQ to 49.8%, mainly due to lower opex growth of 1% YoY vs. 6% YoY Net revenue (NII + other income) growth.
- Bank's loan growth remain flat YoY, as wholesale loans shrank 18% YoY. Bank has cautiously avoided taking bulky loan exposures in the last few quarters as it brought NPAs under control which had spiked last fiscal due to loan exposures to CCD and few stressed companies in the media & real estate sectors. Non-Wholesale loans grew 24% YoY as credit card loans grew 55% YoY, while other retail sub-segments saw much softer growth.

Valuation and outlook

During Q1FY21, Bank's fees income was adversely impacted due to the disruption in customer activities, which was more than offset by healthy growth in NII and drop in opex, resulting in a operating profit growth of 11% YoY. The Q1 performance was better than our estimates on the profitability front. However, the bank's asset quality will continue to remain under pressure, with concerns leaning toward Retail as the COVID-19 outbreak would impact delinquency trends in the portfolios of Credit Cards/MFI and MSME. ~ 30% of non-wholesale loan portfolio availed moratorium; thus, we expect credit cost trends to remain elevated in FY21E.

At this point, the biggest comfort is the bank's tier-1 capital (15.2%) as it can possibly withstand any adverse effect of sudden spikes in slippages. Bank is continuously focusing on de-risking its balance sheet and improving granular liability franchise, which also witnessed in current quarter. We expect the bank's RoA/RoE to moderate to 0.6%/5% in FY21 and recover back to 1%/9% in FY22. Given the strong rally in stock over past two months, we revise rating to "Hold" from "Accumulate" earlier. At CMP, stock trades at 0.95x its FY21E ABV and 0.85x its FY22E ABV. We value RBL at FY22E P/ABV multiple of 0.9x to arrive at target price of Rs 192/ share.

Financials (In INR Bn)

Year	NII	PPOP	PAT	ROA	ROE	Adj BVPS	P/ABVPS
FY20	36.3	27.5	5.1	0.6	5.6	185	0.98
FY21	40.9	28.6	5.3	0.6	4.9	192	0.95
FY22	48.1	33.8	10.2	1.0	8.9	213	0.85



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Highlights of the Conference Call

Business updates

- The disbursements across various loan products which had virtually entirely stopped in the months of April and May, have picked up in June.
- Lower other Income (-33% QoQ) was primarily due to lower credit offtake, conservative risk appetite and reduction in credit card fees
- Operating Cost (-11% QoQ) was declined due to lower variable cost as the retail loan origination was subdued
- Bank has extended the ECLG Scheme to eligible MSME borrowers based on its credit assessment. During Q1FY21, Bank has sanctioned ~Rs 225 Cr to eligible borrowers, of which ~Rs 192 Cr has been disbursed.

Credit Cards

- Bank has made an additional 10% provisioning on credit cards book, which are under moratorium
- The bank has reduced the card limit for risky customers.
- Card Spends dropped to 55% levels in April & May and have recovered to 84% of March levels in July (78% in Jun)
- YOY Drop in spends (-37% vs -64% industry) and spend per card (-57% vs -70% industry) in April'20 lower than Industry
- Travel & Cash, the worst impacted by COVID-19, is only 6% of total pre-COVID spend mix. This will take longest to recover.
- Online Spend share which increased from 45% to 58% in lockdown phase is currently at 53%.
- Daily Spends at 84% of Mar'20 levels (Fuel and Cab recovery still lower) whereas Discretionary Spends are at 93% levels (Dining and food delivery is lower).

Microfinance book

- Collection Efficiency Increased to ~62% in June
- ~95% of the BC Branches are Operational
- ~91% of field staffs rejoined for daily operations and client center meetings are happening regularly were no restrictions are placed.
- Bank has started loan disbursement in this segment from July onwards

Moratorium Update

- Loans under moratorium for the bank has declined to 13.7% from 33% in Q4FY20.
- The fall in moratorium has been led by wholesale loans, which stood at 5% vs 22% earlier.
- Sharper reduction of moratorium in wholesale book was due to multiple reasons, including the fact that many customers who initially thought they needed it decided against availing.
- On the non-wholesale front, about 30% of the total portfolio is still under moratorium
 - In micro finance book, collection efficiency improved upto 62% in June
 - In credit card, 11% of customers (22% by value) are currently under moratorium.

Additional Provisioning

- The bank has set aside Rs 240 Cr for COVID-19 related provisions in Q1FY21, taking the total money set aside due to possible reverses because of the pandemic to Rs 350 Cr.
- Bank has also increased its PCR by more than 600 bps to 70.5%
- Much of the additional provisions made by the bank against Covid-related losses have gone toward strengthening the credit card portfolio

Future Guidance

- In the near term, focus will be on balance sheet protection, capital conservation, high liquidity and protection of credit quality. In retail, focus would be on boosting collections.
- Credit cost for FY21E is expected to be largely similar to FY20 levels. However, the proportion of credit cost in FY21E would be higher toward non-wholesale assets.
- The bank continues to focus on reducing/de-risking wholesale assets and building a granular portfolio.
- Things are improving at very slow pace, therefore the bank expect normalcy in loan growth from December onwards.
- Bank expects rural areas to pick up first due to low infection rates, good crop and monsoon and localized operations of bank's customers.



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Financials (Rs Bn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	YoY	QoQ	Q1FY21
Interest Earned	16.39	18.34	20.23	21.26	21.57	22.08	10%	1%	22.35
Interest Expended	9.84	10.95	12.05	12.57	12.35	11.87	-1%	1%	11.94
NII	6.55	7.39	8.17	8.69	9.23	10.21	27%	2%	10.41
Other Income	3.74	4.09	4.81	4.42	4.87	5.01	-31%	-33%	3.33
Total Income	20.13	22.43	25.04	25.68	26.44	27.09	3%	-5%	25.68
Operating expenses	5.31	5.88	6.80	6.74	6.77	7.70	1%	-11%	6.85
PPoP	4.98	5.60	6.19	6.36	7.32	7.52	11%	-8%	6.90
Provisions	1.61	2.00	2.13	5.33	6.38	6.01	135%	-17%	5.00
Profit Before Tax	3.38	3.60	4.06	1.03	0.94	1.51	-53%	26%	1.90
Tax	1.13	1.13	1.39	0.48	0.24	0.36	-65%	33%	0.48
Net Profit	2.25	2.47	2.67	0.54	0.70	1.14	-47%	23%	1.41
Balance sheet									
Net-worth	728	755	784	780	1055	1058	37%	1%	1072
Deposits	5219	5839	6081	6283	6291	5781	2%	7%	6174
Advances	4989	5431	5684	5848	5964	5802	0%	-2%	5668
Total assets	7220	8036	8405	8768	9146	8898	10%	4%	9245
Asset Quality									
GNPA (%)	1.39	1.38	1.38	2.60	3.33	3.62	207 bps	-17 bps	3.45
NNPA (%)	0.72	0.69	0.65	1.56	2.07	2.05	99 bps	-40 bps	1.65
PCR (%)	49	51	53	41	39	44	27 bps	885 bps	53
Capital adequacy									
Tier 1 Capital	12.5	12.1	11.3	11.3	15.0	15.3	383 bps	-18 bps	15.2
Tier 2 Capital	1.3	1.4	1.1	1.0	1.1	1.1	10 bps	8 bps	1.2
CRAR	13.8	13.5	12.4	12.3	16.1	16.4	393 bps	-10 bps	16.4
RWA/Total Assets	78.1	74.2	78.2	76.4	74.5	75.7	-394 bps	-138 bps	74.3



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P&L (Rs Bn)	FY19	FY20	FY21E	FY22E
Interest Earned	63.0	85.1	91.5	104.9
Interest Expended	37.6	48.8	50.6	56.7
NII	25.4	36.3	40.9	48.1
Other Income	14.4	19.1	17.8	20.3
Net Income	39.8	55.4	58.6	68.5
Operating expenses	20.4	27.9	30.0	34.7
PPoP	19.4	27.5	28.6	33.8
Provisions	6.4	20.0	21.5	20.2
Profit Before Tax	13.0	7.5	7.1	13.6
Tax	4.3	2.5	1.8	3.4
Net Profit	8.7	5.1	5.3	10.2

BS (Rs Bn)	FY19	FY20	FY21E	FY22E
Equity	4	5	5	5
Reserves	71	101	105	114
Deposits	584	578	658	794
Borrowings	118	170	178	174
Other liabilities	26	36	35	39
Total liabilities	804	890	981	1125
Cash & Bank	66	89	115	109
Investments	168	181	192	213
Advances	543	580	632	758
Fixed Assets	4	4	5	6
Other Assets	22	35	36	39
Total Assets	804	890	981	1125

Ratios (%)	FY19	FY20	FY21E	FY22E
Growth				
NII	44	43	13	18
PPOP	46	42	4	18
PAT	37	-42	5	91
Advances	35	7	9	20
Deposits	33	-1	14	21
Returns				
ROA	1.2	0.6	0.6	1.0
ROE	12.2	5.6	4.9	8.9

Ratios (%)	FY19	FY20	FY21E	FY22E
Asset Quality				
GNPA	1.38	3.62	3.87	2.98
NNPA	0.69	2.05	1.98	1.37
PCR	51	44	50	55
Per Share (Rs)				
EPS	20	10	10	20
ABVPS	168	185	192	213
P/E	9	18	17	9
P/ABVPS	1.08	0.98	0.95	0.85



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