

Near term pressures on earnings likely to remain

RBL Bank has reported weak earnings in Q1FY22, affected by elevated provisions and tepid business momentum. Bank has reported a net loss of Rs 4.59 Bn (vs net profit of Rs 7.53 Bn QoQ/ Rs 14.12 Bn YoY).

- **NII came in at INR 9695 Mn, 7% QoQ / -6.9% YoY.**
- **Other Income came in at INR 6947 Mn, 0.9% QoQ / 108% YoY.**
- **Operating Expenses came in at INR 8567 Mn, 19.3% QoQ / 25% YoY.**
- **PPOP came in at INR 8075 Mn, -7.9% QoQ / 17.1% YoY.**
- **Provisions came in at INR 14257 Mn, 86.1% QoQ / 185% YoY.**

Financial Highlights

- Bank's asset quality weakened during the quarter, with GNPA's sequentially up by 65 bps at 4.99% and NNPA's down by 11 bps to 2.01% on account of additional prudential provisioning. Slippages remain elevated at 2.29% (vs 2.57% QoQ) in Q1FY22, largely came from cards/MF and other retail portfolios.
- Credit Cost also remains higher at 255 bps (vs 113 QoQ/ 91 bps YoY). Given the higher balances in delinquency buckets, we believe credit cost is likely to remain elevated in the next few quarters
- Bank made provisions of Rs 14.3bn in Q1FY22, of which Rs 3.65 bn were accelerated specific provisions, while Rs 2.39bn were contingent Covid provisions. PCR excluding write-offs improved to 60.9% (776 bps YoY / 866 bps QoQ).
- Despite the impact of lower disbursements in its retail business, interest reversals and market pricing pressures in the wholesale segment, Bank has improved its NIM by 19 bps QoQ to 4.36%, largely supported by continuous reduction in cost of deposits (5.2% in Q1FY22 vs 5.5% QoQ/6.3% YoY).
- Interest reversals for the quarter amounted to Rs 0.8-1bn, implying an impact on 40-50 bps on NIM. Bank will continue to cut deposit rates over the remainder of FY22, which will further reduce cost of deposit and support margin expansion.
- Other income reflected improving trends and grew 108% YoY to ~Rs 6.94 bn, supported by core fee income (+135% YoY) to ~Rs5.62bn. Retail contributed 75% of total fees.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21	FY22E	FY23E
NII	36	38	43	51
Adjusted net profit	5	5	7	14
Net worth	106	127	132	144
EPS (Rs)	10	8	11	24
P/E (x)	20	23	18	8
P/Adj BV (x)	1.1	1.0	1.0	0.9
RoA (%)	0.6	0.5	0.6	1.2
RoE (%)	5.6	4.4	5.1	10.4

Source: Dalal & Broacha Research, Company

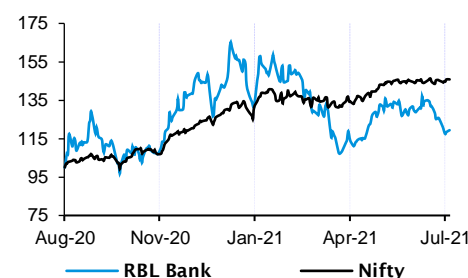
Rating	TP (Rs)	Up/Dn (%)
HOLD	200	3

Market data

Current price	Rs	194
Market Cap (Rs.Bn)	(Rs Bn)	116
Market Cap (US\$ Mn)	(US\$ Mn)	1565
Face Value	Rs	10
52 Weeks High/Low	Rs	274/156
Average Daily Volume	('000)	8469
BSE Code		540065
Bloomberg		RBK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Jun-21	Mar-21
Promoters	0.0	0.0
FII	32.2	34.3
DII	23.5	22.7
Others	44.3	43.0
Total	100	100

Source: BSE

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- Bank's loan book declined by 0.3% YoY (-3.6% QoQ) as wholesale loans shrank 9% YoY. Bank has cautiously avoided taking bulky loan exposures in the last few quarters as it is looking to keep 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 7% YoY as credit card loans grew 17% YoY, while other retail sub-segments saw muted business momentum.
- In order to reduce the inherent risk in the business, Bank is looking to increase its secured retail loans business in upcoming quarters. Bank has started an affordable home loan business two years ago which is now a Rs 15.50 Bn book (vs 3.31 Bn YoY). Also it will focus on rolling out more products. Last month, Bank has launched a pilot program for Tractor Finance. Under which, 600 tractors have been financed and the bank would get to a run rate of 1000 tractors per month by the end of Q3FY22.
- Improved focus on retail deposit mobilization is reflecting in strong deposit growth of 21% YoY/1.8% QoQ and healthy CASA ratio at 33.7%, up from 30.1% YoY. Retail Deposits grew by 47% YoY and 8% QoQ. Bank will continue to focus on further granularization of the liability portfolio.

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Valuation and outlook

Even though Asset Quality is likely to remain under pressure in the near term, we take comfort from its tier-1 capital ratio (16.1%) and stable core operating profit, which provide an additional buffer to cushion 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 the current quarter. As confidence improves on balance sheet, we should see valuations improve from current levels. We expect the bank's RoA/RoE to be around 0.6%/5.1% in FY22 and recover back to 1.2%/10.4% in FY23. At CMP the stock trades at 1x its FY22E ABV and 0.9x its FY23E ABV. We assign Hold rating with a Target Price of Rs 200/share, valuing the stock at a target multiple of 0.9x FY23E ABV.

Highlights of the Conference Call

Asset quality remains under pressure

- Bank reported gross slippages of Rs 13.42 Bn (vs Rs 14.39 Bn QoQ). Out of which, ~97% came from the retail segment and the rest came from the wholesale book. More specifically, Rs 5.01 Bn came from credit cards, Rs 4.45 Bn came from MFI and Rs 3.46 Bn came from the rest of the retail portfolio; and only Rs 0.37 Bn came from the wholesale book.
- Barring microfinance, collection efficiencies return to pre-COVID levels in July-21.
- In July, Bank saw first bucket size, which is the 1 to 29 DPD reduced to below Q4 FY '21 levels for business loans and cards. The second and third buckets are still higher and will come down in the next 2 months.
- Rural and semi-urban markets are still lagging by 1.5 to 2 months because of restrictions in some of the states like Kerala, West Bengal and parts of Maharashtra.
- Gross slippages in Q2FY22 are expected to be similar to Q1FY22 on account of higher balances in delinquency buckets

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Microfinance Highlights

- Impact of the second wave in rural pockets was the worst, with collection efficiencies in MFI business were impacted significantly this time falling to 79% from May-21 and 82% for June-21 versus 89% through the moratorium last year before recovering to around 88% in July-21.
- Bank has not only created additional COVID provisions of 4% on micro banking book, but also increased its PCR to 83% on the entire impaired book

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Credit Cards Highlights

- Collection Efficiency for Delinquent buckets recovered after a sharp drop in the beginning of Q1 2022
- Credit cost for credit cards increased to ~10.5% from 5% -5.25% pre-COVID range.
- The ban on Mastercard has adversely impacted the bank's new card issuances but is confident of being able to get back to selling cards by mid-September and attain the monthly average of 1 lakh new cards.
- Notwithstanding the temporary hits, Bank still plans to issue between 1.2 Mn to 1.4 Mn cards in FY22.
- Bank currently accounts for ~ 10% of new card issuances in the country and with a ~5% total market share. Bank expects to retain this in this range over the next 2 to 3 years.
- PCR on credit cards stood at 75.4% in line with the bank's policy of providing fully and writing off in 180 days

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Future Guidance

- Bank expects to return to profitability and over 9MFY22, make up for the loss of Q1FY22 and target an exit ROA of 1% in Q4 FY22.
- Bank is looking to increase its retail and small business deposits from ~40% currently to 50% plus in the next 18 months.
- Bank will continue to add 80 to 100 branches each year, primarily in metro urban locations.
- Bank is scaling up its customer base to 12-14 Mn over the next 3-4 years from currently 4 Mn (3 Mn card customers and 1 million branch banking customers).
- Bank targeting wholesale: retail mix of ~35:65% in next three to four years.

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Financials

Financials (Rs Bn)	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	YoY (%)	QoQ (%)
Interest Earned	22.6	20.8	19.8	19.7	20.3	-10.3	3.1
Interest Expended	12.2	11.5	10.7	10.6	10.6	-13.3	-0.3
NII	10.4	9.3	9.1	9.1	9.7	-6.9	7.0
Other Income	3.3	4.6	5.8	6.9	6.9	108	0.9
Net Income	13.7	13.9	14.9	15.9	16.6	21.1	4.4
Operating expenses	6.8	6.7	6.8	7.2	8.6	25.1	19.3
PPoP	6.9	7.2	8.0	8.8	8.1	17.1	-7.9
Provisions	5.0	5.3	6.1	7.7	14.3	185	86
Profit Before Tax	1.9	1.9	2.0	1.1	-6.2	NA	NA
Tax	0.5	0.5	0.5	0.3	-1.6	NA	NA
Net Profit	1.4	1.4	1.5	0.8	-4.6	NA	NA
Balance sheet							
Net-worth	107	109	126	127	122	13.8	-3.6
Deposits	617	645	672	731	745	20.6	1.8
Advances	567	562	564	586	565	-0.3	-3.6
Total assets	924	933	964	1007	1003	8.5	-0.3
Asset Quality							
GNPA (%)	3.4	3.3	4.5	4.3	5.0	154 bps	66 bps
NNPA (%)	1.6	1.4	2.5	2.1	2.0	37 bps	-11 bps
PCR (%)	53.2	59.4	46.1	52.3	60.9	776 bps	866 bps
Capital adequacy							
Tier 1 Capital	15.2	15.1	17.1	16.6	16.1	94 bps	-54 bps
Tier 2 Capital	1.2	1.4	0.9	0.9	1.1	-14 bps	20 bps
CRAR	16.4	16.5	17.9	17.5	17.2	80 bps	-34 bps
RWA/Total Assets	74.3	74.8	74.5	73.5	73.4	-90 bps	-9 bps
Efficiency							
CASA	30.1	31.1	31.1	31.8	33.7	359 bps	185 bps
Cost to income	49.8	48.2	45.9	45.0	51.5	166 bps	645 bps
Opex to Assets*	3.0	2.9	2.8	2.9	3.4	45 bps	56 bps
NIM	4.9	4.3	4.2	4.2	4.4	-50 bps	20 bps
Credit Cost	0.91	0.94	1.12	1.13	2.6	164 bps	142 bps

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest income	85.1	82.1	94.5	114.2
Interest expense	48.8	44.3	51.9	63.6
NII	36.3	37.9	42.5	50.7
Non-interest income	19.1	20.6	25.9	31.9
Net revenues	55.4	58.5	68.4	82.5
Operating expenses	28.3	27.5	34.2	42.0
PPOP	27.1	30.9	34.2	40.5
Provisions	19.6	24.0	25.4	21.3
PBT	7.5	6.9	8.8	19.2
Tax	2.5	1.8	2.2	4.8
PAT	5.1	5.1	6.6	14.4
Balance sheet	FY20	FY21	FY22	FY23
Share capital	5	6	6	6
Reserves & surplus	101	121	126	138
Net worth	106	127	132	144
Deposits	578	731	845	999
Borrowings	170	112	96	100
Other liability	36	36	40	43
Total liabilities	890	1007	1113	1287
Fixed assets	5	5	5	5
Investments	181	232	269	319
Loans	580	586	667	805
Cash	89	134	134	115
Other assets	35	49	38	42
Total assets	890	1007	1113	1287

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	42.9	4.4	12.3	19.1
PPOP	39.9	13.9	10.7	18.4
PAT	-41.7	0.4	29.2	119.0
Advances	6.8	1.0	13.8	20.7
Deposits	-1.0	26.5	15.6	18.2
Spread (%)				
Yield on Funds	10.5	9.1	9.3	9.9
Cost of Funds	6.7	5.6	5.8	6.2
Spread	3.7	3.5	3.5	3.7
NIM	4.5	4.2	4.2	4.4
Asset quality (%)				
Gross NPAs	3.6	4.3	4.7	3.8
Net NPAs	2.0	2.1	1.8	1.4
Provisions	44	52	63	64
Return ratios (%)				
RoE	5.6	4.4	5.1	10.4
RoA	0.6	0.5	0.6	1.2
Per share (Rs)				
EPS	10	8	11	24
BV	208	212	221	241
ABV	185	191	201	222
Valuation (x)				
P/E	19.6	22.9	17.7	8.1
P/BV	0.9	0.9	0.9	0.8
P/ABV	1.1	1.0	1.0	0.9

Source: Dalal & Broacha Research, Company

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