



DALAL & BROACHA
STOCK BROKING PVT. LTD.

Analyst: Avinash Tanawade (022) 67141449

Q2FY21 Result Update@ Dalal&Broacha

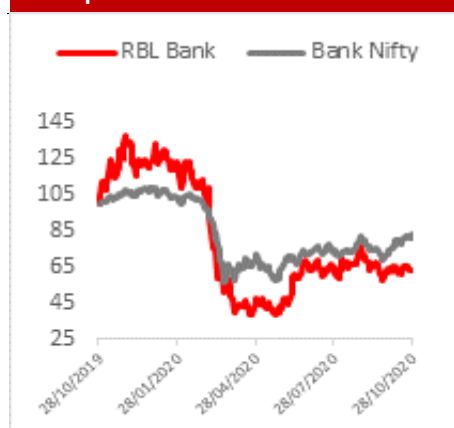
ACCUMULATE

Current Price	175
Target Price	198
Upside	13%
52 Week Range	101/391

Key Share Data

Market Cap (Rs.Bn)	89
Market Cap (US\$ Mn)	1208
No of o/s shares (Mn)	509
Face Value	10
BSE Code	540065
NSE Code	RBLBANK
Bloomberg	RBK:IN

Price performance



RBL Bank has reported a stable set of numbers for the quarter ended September 2020.

- NII came in at INR 9321 Mn, -10.5% QoQ / +7.3% YoY.
- Other Income came in at INR 4562 Mn, +36.9% QoQ / +3.3% YoY.
- PPOP came in at INR 7198 Mn, +4.4% QoQ / +13.2% YoY.
- Provisions came in at INR 5256 Mn, 5.1% QoQ / -1.4% YoY.
- PAT came in at INR 1442 Mn, 2.1% QoQ / 165% YoY.
- EPS stood at INR 2.83 vs INR 2.78 / INR 1.26 in Q1FY21 / Q2FY20 respectively.

Financial Highlights

- Bank's loan book declined by 4% YoY/0.9% QoQ, as wholesale loans shrank 26% YoY. Bank has cautiously avoided taking bulky loan exposures in the last few quarters as it is looking to 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 23% YoY as credit card loans grew 41% YoY, while other retail sub-segments saw much softer growth.
- On liabilities, Deposits grew by 3% YoY/4% QoQ in Q2FY21 led by CASA growth of 21% YoY/8% QoQ taking CASA ratio at 31.1% (Vs 26.5% YoY).
- Bank's asset quality improved during the quarter, with GNPA's sequentially down by 11 bps at 3.34% and NNPA's down by 27 bps to 1.38% on account of standstill levied by the Supreme Court. Excluding the same, GNPA's would have been 3.49% and NNPA would have been 1.49% as per the proforma approach (recognition of NPA using analytical models). Bank is keeping COVID related provisions of Rs 3.1 Bn in Q2FY21; total cumulative provisions of Rs. 6.64 Bn (121 bps of advances).
- ~ 9% of the credit card portfolio is currently overdue which includes ~5% of advances that have not paid a single due since April. Management estimates credit costs in credit card/micro finance portfolio at ~9-10%/4-5% and continues to maintain overall credit cost guidance at around last year levels for FY21.
- The bank's operational efficiency remained strong, with cost to income ratio falling by 332 bps YoY to 48.2%, backed by higher net income (NII + other income) growth of 6% vs opex de-growth of 0.9% in Q2FY21.

Valuation and outlook

Even though Asset Quality is likely to remain under pressure in near term, we take comfort from its tier-1 capital ratio (15.1%) and COVID related provisions of Rs 6.64 Bn (1.21% of advances), 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 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 0.7%/5% in FY21 and recover back to 1.3%/9.9% in FY22. At CMP the stock trades at 0.9x its FY21E ABV and 0.8x its FY22E ABV. We assign ACCUMULATE rating with Target Price of Rs 198/share, valuing the stock at a target multiple of 0.9x FY22E ABV.

% Shareholding	Sep-20	Jun-20
Promoters	0.00	0.00
FII	30.62	29.28
DII	19.13	22.44
Others	50.25	48.27
Total	100	100

Consolidated Financials (In INR Bn)

Year	NII	PPOP	PAT	ROA	ROE	Adj BVPS	P/BVPS
FY20	36.3	27.5	5.1	0.6	5.6	185	0.9
FY21E	38.9	29.2	6.1	0.7	5.3	196	0.9
FY22E	46.2	35.1	13.1	1.3	9.9	217	0.8



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Highlights of the Conference Call

Asset quality

- The gross slippage without availing the benefit of the standstill to asset classification would have been Rs. 2.35 Bn (vs reported Rs 1.45 Bn) and the gross slippage ratio would have been 1.07%.
- Over & above 0.63% contingency buffer, the bank built further provisions Rs 3.1 bn towards loans under moratorium, taking cumulative provision buffer of Rs 6.64 bn (1.21% of loans).
- In terms of credit provisioning indication for FY21, it would remain within the same ballpark of ~5% as last year.
- Bank's credit filters continue to remain extremely conservative, and are looking at every client in terms of their current cash flows, prepayment on their existing deals across finances, especially during moratorium, and a degree of certainty in terms of future business.
- Bank's collection efficiency stood 93% of pre COVID levels in Sep 2020 and improving every month, and management expect it to reach pre COVID levels by Jan 2021.

Capital adequacy

- Bank has received approval from RBI to go ahead with the capital raise of Rs 15.66 Bn, which is pending approval because of 1 large shareholder wanting to be above 5%.
- The completing of this capital raise over the next few days will increase adequacy ratio to 18.7% (vs 16.5% in Q2FY20), with a CET1 of 17.4%.

MSME business

- Bank has disbursed ~ Rs 4.50 Bn under ECLGS, a little under 80% of what the bank expected to disburse by Dec 2020. This also results in some de-risking of portfolio as it has given much needed working capital to these businesses, trying to get back to normalcy.
- Business loans are still a little slow at about 65% of BAU volumes. The recovery here will take slightly longer and is a function of businesses being able to recover fully in terms of sales.

Credit Card segment

- The bank's moratorium book in credit card segment came down from 22% (by value) and 11% (by customers) in June to 16% (by value) and 9% (by customers) as on August '20. Bank is seeing a monthly reduction of 10% to 12% on this pool, which is likely to continue through quarter. Bank is confident of restricting credit cost on the portfolio to ~ 9% - 10% as earlier guided.
- As of Sep 30, 9.4% of the portfolio was overdue, out of which 54% customers have not paid since April or May. Most of its credit losses will come from this 54% customers. Management is expecting a credit cost on this portfolio to be ~ 9%-10%.
- New card issuance is gaining momentum, with bank issuing close to 100,000 cards in Sep 2020. Management is confident that they will achieve pre COVID run rate by December end and then grow from there.
- Discretionary spends higher than March levels partly on account of pent up demand. Daily spends at 96% of March levels.

Wholesale business

- Bank is focusing on adding better quality names and keeping granularity in its portfolio.
- The borrowers rated A minus or better are now 75.1% of rated portfolio, and this reflects a consistent improvement over the last several quarters.
- Bank has added 60 new client relationships in the quarter across product segments of cash management services, digital banking, advances and liabilities.

Micro banking

- The bank is now disbursing around 85% of our BAU (business as usual) run rates.
- ~6.7% of the customers have not paid any installments since April while rest 93.3% have resumed payment. With collections improving month on month, there are some pockets in states like West Bengal, Assam, Punjab and Maharashtra where collections are a little challenged, both on account of sluggish economic activity and mobility.
- Bank has observed a few external influences on customer prompting them not to pay, but it is still in very few pockets and not a trend.



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Financials (Rs Bn)	Q3FY19	Q4FY19	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY	QoQ	Q2FY21
Interest Earned	16.39	18.34	20.23	21.26	21.57	22.08	22.35	-2%	-7%	20.77
Interest Expended	9.84	10.95	12.05	12.57	12.35	11.87	11.94	-9%	-4%	11.45
NII	6.55	7.39	8.17	8.69	9.23	10.21	10.41	7%	-10%	9.32
Other Income	3.74	4.09	4.81	4.42	4.87	5.01	3.33	3%	37%	4.56
Total Income	20.13	22.43	25.04	25.68	26.44	27.09	25.68	-1%	-1%	25.33
Operating expenses	5.31	5.88	6.80	6.74	6.77	7.70	6.85	-1%	-2%	6.69
PPoP	4.98	5.60	6.19	6.36	7.32	7.52	6.90	13%	4%	7.20
Provisions	1.61	2.00	2.13	5.33	6.38	6.01	5.00	-1%	5%	5.26
Profit Before Tax	3.38	3.60	4.06	1.03	0.94	1.51	1.90	89%	2%	1.94
Tax	1.13	1.13	1.39	0.48	0.24	0.36	0.48	4%	3%	0.50
Net Profit	2.25	2.47	2.67	0.54	0.70	1.14	1.41	165%	2%	1.44
Balance sheet										
Net-worth	728	755	784	780	1055	1058	1072	39%	1%	1087
Deposits	5219	5839	6081	6283	6291	5781	6174	3%	4%	6451
Advances	4989	5431	5684	5848	5964	5802	5668	-4%	-1%	5616
Total assets	7220	8036	8405	8768	9146	8898	9245	6%	1%	9335
Asset Quality										
GNPA (%)	1.39	1.38	1.38	2.60	3.33	3.62	3.45	73 bps	-11 bps	3.34
NNPA (%)	0.72	0.69	0.65	1.56	2.07	2.05	1.65	-18 bps	-26 bps	1.38
PCR (%)	49	51	53	41	39	44	53	1870 bps	624 bps	59
Capital adequacy										
Tier 1 Capital	12.5	12.1	11.3	11.3	15.0	15.3	15.2	386 bps	-3 bps	15.1
Tier 2 Capital	1.3	1.4	1.1	1.0	1.1	1.1	1.2	36 bps	18 bps	1.4
CRAR	13.8	13.5	12.4	12.3	16.1	16.4	16.4	422 bps	15 bps	16.5
RWA/Total Assets	78.1	74.2	78.2	76.4	74.5	75.7	74.3	-161 bps	49 bps	74.8

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P&L (Rs Bn)	FY19	FY20E	FY21E	FY22E
Interest Earned	63.0	85.1	89.2	100.3
Interest Expended	37.6	48.8	50.3	54.0
NII	25.4	36.3	38.9	46.2
Other Income	14.4	19.1	20.4	23.3
Net Income	39.8	55.4	59.3	69.5
Operating expenses	20.4	27.9	30.1	34.4
PPoP	19.4	27.5	29.2	35.1
Provisions	6.4	20.0	21.0	17.6
Profit Before Tax	13.0	7.5	8.2	17.5
Tax	4.3	2.5	2.1	4.4
Net Profit	8.7	5.1	6.1	13.1

BS (Rs Bn)	FY19	FY20E	FY21E	FY22E
Equity	4	5	6	6
Reserves	71	101	121	132
Deposits	584	578	617	728
Borrowings	118	170	161	147
Other liabilities	26	36	32	37
Total liabilities	804	890	937	1049
Cash & Bank	66	85	110	96
Investments	168	181	190	203
Advances	543	580	598	708
Fixed Assets	4	4	5	6
Other Assets	22	38	35	37
Total Assets	804	890	937	1049

Ratios (%)	FY19	FY20E	FY21E	FY22E
Growth				
NII	44	43	7	19
PPOP	46	42	6	20
PAT	37	-42	21	114
Advances	35	7	3	18
Deposits	33	-1	7	18
Returns				
ROA	1.2	0.6	0.7	1.3
ROE	12.2	5.6	5.3	9.9

Ratios (%)	FY19	FY20E	FY21E	FY22E
Asset Quality				
GNPA	1.38	3.62	4.56	3.38
NNPA	0.69	2.05	1.64	1.11
PCR	51	44	65	68
Per Share (Rs)				
EPS	20	10	10	22
ABVPS	168	185	196	217
P/E	9	18	17	8
P/ABVPS	1.0	0.9	0.9	0.8



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