

RBL Bank has reported weak earnings in Q2FY22, affected by elevated provisions, higher interest reversal and tepid business momentum. Bank's asset quality weakened during the quarter, with GNPA's sequentially up by 41 bps at 5.4% and NNPA's up by 13 bps to 2.14%. Slippages stood at 2.15% (vs 2.29% QoQ) and management expects this ratio to come down meaningfully in coming quarters. Management also expects the credit costs in H2FY22 to be half of what the bank reported in H1FY22.

- NII came in at Rs 9.15 Bn, -5.6% QoQ / -1.8% YoY
- Other Income came in at Rs 5.93 Bn, -9.3% QoQ / 41.8% YoY
- PPOP came in at Rs 6.91 Bn, -9.8% QoQ / 1.4% YoY
- Provisions came in at Rs 6.51 Bn, -52.9% QoQ / 33.6% YoY
- PAT came in at Rs 308 Mn, (-Rs 4.59 Bn) QoQ / -78.6% YoY
- EPS stood at Rs 0.51 vs INR -7.68 / INR 2.82 in Q1FY22 / Q2FY21

Financial Highlights

- Bank's loan book declined by 0.3% YoY (-0.9% QoQ) as retail loans shrank 4.2% YoY (-4% QoQ). The drag in the retail portfolio mainly came from micro-banking, which declined by 25.8% YoY/15.7% QoQ, and business banking, which declined by 14.4% YoY and 7.6% QoQ. However, the bank saw good traction in wholesale advances, which registered a growth of ~5%YoY/3%QoQ. Besides, credit cards and retail Agri segments also saw growth of 3.7% QoQ and 6.1% QoQ. Management saw credit recovery across verticals and expects credit growth of ~7-8% in H2FY22 and the mid to high teens in FY23.
- Portfolio quality continues to remain under pressure during Q2FY22, with Gross slippages stood at ~Rs 12.17 Bn in 2QFY22 (vs Rs 13.42 Bn QoQ). A large part of the slippages came from the bank's microfinance and credit card portfolios, which were severely impacted by the second wave. According to management commentary, gross NPAs have now peaked and are likely to trend down from Q3FY22 onwards.
- Management also indicated that net slippages as well credit cost in 2HFY22 would be half the level seen in H1FY22. Out of restructuring of 3.66%, 21% came from the wholesale book and the rest from the retail side

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	36	38	40	49
Adjusted net profit	5	5	3	13
Networth	106	127	130	140
EPS (Rs)	10	8	6	22
P/E (x)	20	24	35	9
P/Adj BV (x)	1.1	1.1	1.0	0.9
RoA (%)	0.6	0.5	0.3	1.1
RoE (%)	5.6	4.4	2.7	9.6

Source: Dalal & Broacha Research, Company

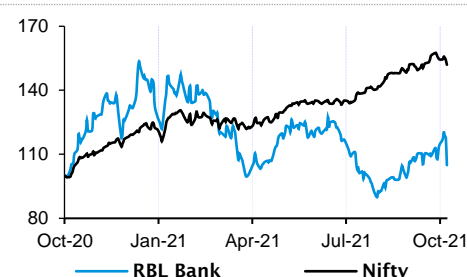
Rating	TP (Rs)	Up/Dn (%)
HOLD	215	7

Market data

Current price	Rs	201
Market Cap (Rs.Bn)	(Rs Bn)	121
Market Cap (US \$ Mn)	(US \$ Mn)	1611
Face Value	Rs	10
52 Weeks High/Low	Rs	274/156
Average Daily Volume	('000)	8816
BSE Code		540065
Bloomberg		RBK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Sep-21	Jun-21
FII	31.6	32.2
DII	22.7	23.5
Others	45.7	44.3
Total	100	100

Source: BSE

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- Bank has done remarkable job in improving its liability franchise, with deposits grew by 20.6% YoY/1.8% QoQ in Q2FY22 led by CASA growth of 33% YoY/7% QoQ taking CASA ratio at 35.4% (Vs 33.7% QoQ).
- Bank is confident of handling the stress and will improve its PCR to 65% (from 62% in Q2FY22) by Q4FY22. The bank is holding Rs 1.34 bn worth of Covid provisions and Rs 2.58bn worth restructured book provisions
- Opex surged ~22.3% YoY and thus the C/I ratio increased to 54.2% (vs 49.5% YoY). As a result, PPop grew by 1.7% YoY.
- NII declined 1.8% YoY (-5.6% QoQ), affected by weak loan growth and interest reversals of Rs 1.3 Bn; margins declined ~30bp QoQ to 4.06%. Management expects the trend to reverse immediately and estimate NIM to be ~4.3% in Q3 & ~4.5% in Q4FY22 on the account of stable loan growth, normalization in interest reversals & decline in cost of deposits.

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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 prudent provisioning policy, tier-1 capital ratio (15.5%) 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 was 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 0.3%/2.7% in FY22 and recover back to 1.1%/9.6% 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 215/share, valuing the stock at a target multiple of 1x FY23E ABV.

Highlights of the Conference Call

Asset quality

- Net slippages stood at Rs 7.47 Bn (Vs Rs 10.69 Bn QoQ). The slippage breakup; Credit Cards (Rs 4.31 Bn), MFI (Rs 2.67 Bn), and other secured retail (Rs 0.35 Bn), while only Rs 0.14 Bn came from the wholesale book.
- Given strong recovery in collection efficiency, management is confident that the worst in terms of slippages is over and will see a sharp reduction in slippages from Q3FY22 onwards.
- On COVID restructuring, resolution Framework 2.0 was largely centered around secure business loans (Rs 8.90 Bn) and MFIs (Rs 3.61 Bn), while restructuring in Credit cards was negligible (~Rs 10 Mn). Total COVID restructuring 1.0 & 2.0 stood at ~ Rs 17 Bn, (3% of loans).
- Credit cost in 2HFY22 would be less than half of 1HFY22.
- The bank aims to increase PCR to ~65% by FY22.

Microfinance loans

- Overall collection efficiency was 83% in June, 88% in July, 89% in August and ~90% in Sep 2021. On non NPAs book, collection efficiency improved from 83% in June to ~94% in Sep 2021 and improving MoM.
- Book, which was originated in FY21 saw collection efficiency of ~ 98.4%, indicating stress is largely restricted to pre-covid book. This new book accounts for ~53% of microfinance advances.
- Bank has built a scorecard in microfinance loans, which will differentiate between resilient and vulnerable customer segments.
- Bank would like to maintain the microfinance book to ~ 10% of total loan book

Credit Cards

- Bank restarted credit card issuances from Sept 13 on Visa's payment network. Bank has already issued ~1.6 lakh cards in Sep -2021 and expects 2 lakh plus cards in Oct-2021.
- Card spends improved by 48% YoY/21% QoQ in Q2FY22. Spends in Oct 2021 should be ~Rs 41 Bn, up 18% MoM.
- The bank makes 70% provision at 90 DPD and 100% provision at 180 DPD leading to write off.

Building strong liability

- Retail and small business deposit as % of total deposit improved by 717 bps YoY /195 bps QoQ to 41.6%. Retail deposits accounted for 80% of incremental deposit growth during the quarter.
- COD declined by 17 bps QoQ to 5.01% in Q2FY22. Given a higher focus on retail deposit, management expects further reduction in COD in H2FY22.

P&L impact

- NIM stood at 4.06% (down by 30 bps QoQ), impacted by interest reversal of 58 bps. Management expects trends to revert immediately, with NIMs stabilising at ~4.3% in Q3FY22 & improved further at ~4.5% in Q4FY22.
- Despite the impact of core fee income reversals of ~ Rs.0.39 Bn, Bank's core fee income grew 46% YoY to Rs 5.06 Bn. Out of this, Rs 4.26 Bn (~84%) was derived from the retail business specially cards.

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Other highlights

- Management expects credit growth of ~7-8% in H2FY22 and in the mid to high teens in FY23.
- Bank saw good traction in wholesale portfolio and disbursed ~ Rs 10 Bn in October 2021.
- Bank has added 9 branches and 13 BC points in Q2FY22. Bank is looking to end the year (FY22) with 500 plus branches.

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Financials

Financials (Rs Bn)	Q2FY21	Q3FY21	Q4FY21	Q1FY22	Q2FY22	YoY (%)	QoQ (%)
Interest Earned	20.97	19.80	19.65	20.26	19.75	(5.8)	(2.5)
Interest Expended	11.65	10.72	10.59	10.56	10.59	(9.0)	0.3
NII	9.32	9.08	9.06	9.70	9.15	(1.8)	(5.6)
Other Income	4.18	5.80	6.88	6.53	5.93	41.8	(9.3)
Net Income	13.50	14.88	15.94	16.23	15.08	11.7	(7.1)
Operating expenses	6.69	6.83	7.18	8.57	8.17	22.3	(4.6)
PPoP	6.82	8.05	8.77	7.66	6.91	1.4	(9.8)
Provisions	4.88	6.10	7.66	13.84	6.51	33.6	(52.9)
Profit Before Tax	1.94	1.95	1.10	(6.18)	0.39	(79.7)	NA
Tax	0.50	0.48	0.35	(1.59)	0.09	(82.6)	NA
Net Profit	1.44	1.47	0.75	(4.59)	0.31	(78.6)	NA
Balance sheet							
Net-worth	108.7	125.8	126.6	122.1	122.5	13.8	(3.6)
Deposits	645.1	671.8	731.2	744.7	755.9	20.6	1.8
Advances	561.6	564.4	586.2	565.3	560.1	(0.3)	(3.6)
Total assets	933.5	964.4	1006.5	1003.4	1044.7	8.5	(0.3)
Asset Quality							
GNPA (%)	3.3	4.5	4.3	5.0	5.4	207 bps	41 bps
NNPA (%)	1.4	2.5	2.1	2.0	2.1	76 bps	13 bps
PCR (%)	59.4	46.1	52.3	60.9	61.7	226 bps	74 bps
Capital adequacy							
Tier 1 Capital	15.1	17.1	16.6	16.1	15.5	42 bps	-56 bps
Tier 2 Capital	1.4	0.9	0.9	1.1	0.8	-58 bps	-26 bps
CRAR	16.5	17.9	17.5	17.2	16.3	-17 bps	-82 bps
RWA/Total Assets	74.8	74.5	73.5	73.4	73.3	-149 bps	-10 bps
Efficiency							
CASA	31.1	31.1	31.8	33.7	35.4	426 bps	170 bps
Cost to income	49.5	45.9	45.0	52.8	54.2	468 bps	140 bps
Opex to Assets*	2.9	2.8	2.9	3.4	3.1	26 bps	-29 bps
NIM	4.3	4.2	4.2	4.4	4.1	-20 bps	-30 bps
Credit Cost	0.9	1.1	1.1	2.6	1.2	24 bps	-137 bps

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	85.1	82.1	92.0	112.3		Growth (%)			
Interest expense	48.8	44.3	51.9	63.6	NII	42.9	4.4	5.8	21.6
NII	36.3	37.9	40.1	48.7	PPOP	39.9	13.9	-1.7	25.1
Non-interest income	19.1	20.6	23.4	29.9	PAT	-41.7	0.4	-31.4	272.0
Net revenues	55.4	58.5	63.5	78.7	Advances	6.8	1.0	13.8	20.7
Operating expenses	28.3	27.5	33.1	40.7	Deposits	-1.0	26.5	15.6	18.2
PPOP	27.1	30.9	30.4	38.0		Spread (%)			
Provisions	19.6	24.0	25.7	20.7	Yield on Funds	10.5	9.1	9.1	9.8
PBT	7.5	6.9	4.7	17.3	Cost of Funds	6.7	5.6	5.8	6.2
Tax	2.5	1.8	1.2	4.4	Spread	3.7	3.5	3.3	3.5
PAT	5.1	5.1	3.5	13.0	NIM	4.5	4.2	4.0	4.2
						Asset quality (%)			
Balance sheet	FY20	FY21	FY22	FY23	Gross NPAs	3.6	4.3	4.7	3.8
Share capital	5	6	6	6	Net NPAs	2.0	2.1	1.8	1.4
Reserves & surplus	101	121	124	134	Provisions	44	52	63	64
Net worth	106	127	130	140		Return ratios (%)			
Deposits	578	731	845	999	RoE	5.6	4.4	2.7	9.6
Borrowings	170	112	96	100	RoA	0.6	0.5	0.3	1.1
Other liability	36	36	40	43		Per share (Rs)			
Total liabilities	890	1,007	1,110	1,283	EPS	10	8	6	22
Fixed assets	5	5	5	5	BV	208	212	217	235
Investments	181	232	269	319	ABV	185	191	196	215
Loans	580	586	667	805		Valuation (x)			
Cash	89	134	132	111	P/E	20.3	23.7	34.6	9.3
Other assets	35	49	38	41	P/BV	1.0	1.0	0.9	0.9
Total assets	890	1,007	1,110	1,283	P/ABV	1.1	1.1	1.0	0.9

Source: Dalal & Broacha Research, Company

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