RBL Bank

Q3FY21 Result Update | BFSI

DALAL & BROACHA
STOCK BROKING PVT. LTD.

Equity Research Desk

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Near term pressures on earnings likely to remain

RBL Bank's Q3FY21 performance was below our estimates on the profitability front mainly on account of higher interest reversal and elevated provisions for its stressed retail and MSME book.

- **NII came in at INR 9082 Mn,** -2.6% QoQ / -1.6% YoY and 13% below our est.
- **Net Income came in at INR 14880 Mn,** 7.2% QoQ / 5.6% YoY and 4% below our est.
- **PPOP came in at INR 8048 Mn,** 11.8% QoQ / 12.3% YoY and 2% below our est.
- **Provisions came in at INR 6098 Mn,** 16% QoQ / -2.1% YoY and 1% above our est.
- **PAT came in at INR 1471 Mn,** 2% QoQ / 110% YoY and 10% below our est.
- **EPS stood at INR 2.64** vs INR 2.83 / INR 1.56 in Q2FY21 / Q3FY20 respectively

Financial Highlights

- Bank's loan book declined by 5.4% YoY (up by 0.5% QoQ) as wholesale loans shrank 25% 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 16% YoY as credit card loans grew 30% YoY, while other retail sub-segments saw much softer growth.
- On liabilities, Deposits grew by 7% YoY/4% QoQ in Q3FY21 led by CASA growth of 24% YoY/4% QoQ taking CASA ratio at 31.1% (Vs 26.8% YoY). According to management, Incremental growth in SA from branches in 9MFY21 is 2.5x higher than 9MFY20.
- Bank's C/I ratio drop by 215 bps YoY to 46%, backed by higher net income (NII + other income) growth of 5.6% YoY vs opex growth of 0.9% YoY.
- Other income grew at 27% QoQ to INR5.8bn, supported by core fee income (37% QoQ) of INR 4.97 bn, which was led by improvement in card fees (62% QoQ) – as card spends crossed pre-COVID levels.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	36	41	47	55
Adjusted net profit	5	7	14	19
Net worth	106	127	139	155
EPS (Rs)	10	12	24	32
Growth (%)	-42	36	105	34
P/E (x)	22	19	9	7
P/Adj BV (x)	1.2	1.1	1.0	0.9
RoA (%)	0.6	0.7	1.3	1.5
RoE (%)	6	6	11	13

Source: Dalal & Broacha Research, Company

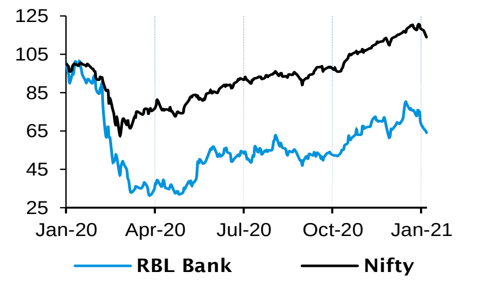
Rating	TP (Rs)	Up/Dn (%)
HOLD	241	13

Market data

Current price	**Rs**	**214**
Market Cap (Rs.Bn)	(Rs Bn)	128
Market Cap (US$ Mn)	(US$ Mn)	1756
Face Value	Rs	10
52 Weeks High/Low	Rs	347/102
Average Daily Volume	('000)	20783
BSE Code		540065
Bloomberg		RBK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Dec-20	Sep-20
FII	37.57	30.62
DII	22.27	19.14
Others	40.16	50.24
Total	**100**	**100**

Source: BSE

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- In order to reduce inherent risk in the business, the bank is looking to increase its secured retail loans business in upcoming quarters. The bank has started an affordable home loan business a year ago which is now a Rs 5.0 Bn book. Also it will focus on rolling out more products.
- Bank's GNPAs sequentially down by 150 bps at 1.84% and NNPAs down by 67 bps to 0.71% on account of standstill levied by the Supreme Court. Excluding the same, GNPAs would have been 4.57% and NNPA would have been 2.37% as per the proforma approach.
- Slippages were elevated at INR14.7bn, of which ~INR13bn came from retail segment. Thus, PCR (including proforma GNPA) declined to 49.3% v/s 58.2% QoQ. Total restructuring is expected at 1.5% of total loans. Overall, we expect the slippages & credit cost to remain elevated in the near term.

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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 (17.1%) and improvement in core operating performance, 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%/5.9% in FY21 and recover back to 1.3%/10.6% in FY22. At CMP the stock trades at 1x its FY22E ABV and 0.9x its FY23E ABV. We assign Hold rating with Target Price of Rs 241/share, valuing the stock at a target multiple of 1x FY23E ABV.

Highlights of the Conference Call

Asset quality remains under pressure

- The bank has reported a credit costs at 110 bps and according to management it will remain at similar levels in the Q4FY21 as retail segment is showing some stress particularly in cards and micro banking portfolio. However, management said that the credit cost will likely to moderate in FY22.
- Total restructured book stood at 0.91% of the bank's loan book largely came from credit card loans and MSME segment. Final restructuring book is expected to be around 1.5% of advances by Q4FY21.
- Micro finance loans which make for about 12% of the loan book are still limping back to normalcy, showing collection efficiency of 92% lower than the 99% norm for the sector. The new loans booked post June are at 99% efficiency and as good as pre Covid levels. It is the legacy loans which are under stress. Management is confident that this book will be back to normal once the Covid stress plays out. The bank had taken a call to not disburse new loans in Assam in 2019 itself and its exposure to the state is only Rs 1.60 Bn.
- In credit card portfolio, Bank expects credit cost of 10% for FY21 (so far in 9M credit cost at 7.4%), and is likely to normalize in FY22 to 5-5.5%. Bank restructured 4% of card book spread across 53k customers.
- Bank has utilized covid provisions of INR2.8-3bn during the quarter. The remaining Covid provision buffer stands at ~Rs3.8bn (~0.7% of the advances).

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Business Momentum Improving

- The wholesale book demonstrated good stability and continued to show improvement, while credit card business bounce back & micro banking segment is moving towards normalcy.
- The bank's new credit card growth is back to pre-covid levels, adding 0.12 mn cards per month, and spends have crossed pre-covid levels with growth of 4.1% YoY. Active rate (49%) is little lower than pre-covid levels but is expected to further improve as quantum of blocked cards goes down.
- In Micro banking, new disbursements undertaken in a conservative manner and are expected to remain tepid till a clear sign of recovery is visible.
- The bank's wholesale portfolio is likely grow now onwards, focus will be on better rated corporates.

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Other Highlights

- NIMs & fees were adversely impacted by interest and fees reversals (credit cards).
- Bank is looking to add 70-80 branches in 4Q

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Financials

Financials (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	YoY	QoQ
Interest Earned	21.6	22.1	22.3	20.8	19.8	-8%	-5%
Interest Expended	12.3	11.9	11.9	11.5	10.7	-13%	-6%
NII	**9.2**	**10.2**	**10.4**	**9.3**	**9.1**	**-2%**	**-3%**
Other Income	4.9	5.0	3.3	4.6	5.8	19%	27%
Net Income	**14.1**	**15.2**	**13.7**	**13.9**	**14.9**	**6%**	**7%**
Operating expenses	6.9	7.7	6.8	6.7	6.8	-1%	2%
PPoP	**7.2**	**7.5**	**6.9**	**7.2**	**8.0**	**12%**	**12%**
Provisions	6.2	6.0	5.0	5.3	6.1	-2%	16%
Profit Before Tax	**0.9**	**1.5**	**1.9**	**1.9**	**2.0**	**108%**	**0%**
Tax	0.2	0.4	0.5	0.5	0.5	101%	-4%
Net Profit	**0.7**	**1.1**	**1.4**	**1.4**	**1.5**	**110%**	**2%**
Balance sheet							
Net-worth	105	106	107	109	126	19%	16%
Deposits	629	578	617	645	672	7%	4%
Advances	596	580	567	562	564	-5%	1%
Total assets	915	890	924	933	964	5%	3%
Asset Quality							
GNPA (%)	3.33	3.62	3.45	3.34	1.84	-149 bps	-150 bps
NNPA (%)	2.07	2.05	1.65	1.38	0.71	-136 bps	-67 bps
PCR (%)	38.5	44.3	53.2	59.4	61.7	2321 bps	229 bps
Capital adequacy							
Tier 1 Capital	15.0	15.3	15.2	15.1	17.1	206 bps	196 bps
Tier 2 Capital	1.1	1.1	1.2	1.4	0.9	-21 bps	-53 bps
CRAR	16.1	16.4	16.4	16.5	17.9	185 bps	143 bps
RWA/Total Assets	74.5	75.7	74.3	74.8	74.5	-5 bps	-30 bps

Source: Dalal & Broacha Research, Company

Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23
Interest income	85.1	88.0	101.3	124.4
Interest expense	48.8	47.3	54.4	69.2
NII	**36.3**	**40.7**	**47.0**	**55.2**
Non-interest income	19.1	19.6	24.2	30.3
Net revenues	**55.4**	**60.3**	**71.2**	**85.5**
Operating expenses	27.9	29.1	34.8	42.2
PPOP	**27.5**	**31.3**	**36.4**	**43.3**
Provisions	20.0	22.1	17.6	18.0
PBT	**7.5**	**9.2**	**18.8**	**25.3**
Tax	2.5	2.3	4.7	6.4
PAT	**5.1**	**6.9**	**14.1**	**19.0**

Balance sheet	FY20	FY21	FY22	FY23
Share capital	5	6	6	6
Reserves & surplus	101	121	133	149
Net worth	**106**	**127**	**139**	**155**
Deposits	578	684	812	994
Borrowings	170	139	141	146
Other liability	36	42	40	41
Total liabilities	**890**	**992**	**1132**	**1336**
Fixed assets	5	5	6	7
Investments	181	250	280	332
Loans	580	587	692	836
Cash	89	113	116	118
Other assets	35	37	38	43
Total assets	**890**	**992**	**1132**	**1336**

Ratios	FY20	FY21	FY22	FY23
Growth (%)				
NII	43	12	15	18
PPOP	42	14	17	19
PAT	-42	36	105	34
Advances	7	1	18	21
Deposits	-1	18	19	22
Spread (%)				
Yield on Funds	10.5	9.8	9.9	10.5
Cost of Funds	6.7	6.0	6.1	6.6
Spread	3.7	3.8	3.8	3.9
NIM	4.5	4.5	4.6	4.7
Asset quality (%)				
Gross NPAs	3.6	5.1	3.6	2.8
Net NPAs	2.0	2.5	1.6	1.3
Provisions	44	53	58	54
Return ratios (%)				
RoE	5.6	5.9	10.6	12.9
RoA	0.6	0.7	1.3	1.5
Per share (Rs)				
EPS	10	12	24	32
BV	208	213	233	259
ABV	185	189	215	241
Valuation (x)				
P/E	21.6	18.7	9.1	6.8
P/BV	1.0	1.0	0.9	0.8
P/ABV	1.2	1.1	1.0	0.9

Source: Dalal & Broacha Research, Company

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