

RBL Bank's Q4FY21 performance was below our estimates on the profitability front mainly on account of higher interest reversal and elevated provisions.

- NII came in at INR 9060 Mn, -0.2% QoQ / -11.3% YoY
- Net Income came in at INR 15945 Mn, 7.2% QoQ / 5.6% YoY
- PPOP came in at INR 8765 Mn, 8.9% QoQ / 16.6% YoY
- Provisions came in at INR 7663 Mn, 25.7% QoQ / 27.5% YoY
- PAT came in at INR 753 Mn, -48.8% QoQ / -34.1% YoY
- EPS stood at INR 1.26 vs INR 2.64 QoQ / INR 2.25 YoY

Financial Highlights

- Bank's asset quality improved during the quarter, with GNPA & NNPA stood at 4.34% & 2.12% as against 4.57% & 2.52% on a proforma basis in the previous quarter. PCR including write-offs improved to 72% (815 bps YoY) and the bank aims to take the number to 80% by FY22. Bank has reported a slippage ratio of ~2.57% (vs. 2.62% in Q3FY21), largely came from retail advances, predominantly from the unsecured portfolio.
- NIM declined 76bps YoY (2bps QoQ) due to interest reversal and excess liquidity on the balance sheet. The management highlighted that NIMs will likely to bounce back to ~4.7% in FY22.
- Bank's loan book grew by 1% YoY (4% QoQ) to Rs 586.23 Bn, supported by retail loan growth of 13% YoY (4% QoQ), while Wholesale book de-grew by 12% YoY (up 3% QoQ). Within Retail, credit card advances grew by 16% YoY and Micro-banking increased by 11% YoY. Management highlighted that wholesale book is more stable now and steady growth is expected in the upcoming quarters.
- On liabilities, Deposits grew by 26% YoY/9% QoQ in Q4FY21 led by CASA growth of 36% YoY/11% QoQ taking CASA ratio at 31.8% (Vs 29.6% YoY). Continued focus on strong deposits franchise helped the bank in the maintaining LCR of 154%. Bank's capital adequacy ratio stood at 17.5% (vs 16.4% QoQ), of which Tier I capital was 16.6% (vs 15.3% QoQ) & Tier II capital was 0.9% (flat QoQ).
- Bank's C/I ratio drop by 555 bps YoY to 45%, backed by net income (NII + Other Inc) growth of 5% YoY vs opex de-growth of -6.7% YoY.

Financial Summary

Y/E Mar (Rs Bn)	FY20	FY21E	FY22E	FY23E
NII	36	38	44	52
Adjusted net profit	5	5	13	18
Networth	106	127	137	152
EPS (Rs)	10	8	21	30
growth (%)	-42	0	148	41
P/E (x)	18	21	9	6
P/Adj BV (x)	1.0	1.0	0.9	0.8
RoA (%)	0.6	0.5	1.2	1.4
RoE (%)	6	4	10	12

Source: Dalal & Broacha Research, Company

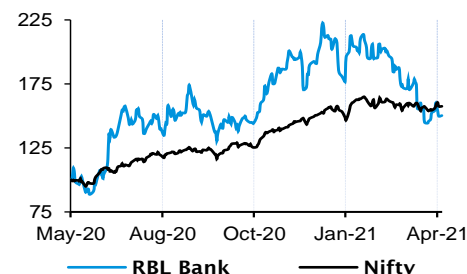
Rating	TP (Rs)	Up/Dn (%)
ACCUMULATE	210	15

Market data

Current price	Rs	182
Market Cap (Rs.Bn)	(Rs Bn)	109
Market Cap (US\$ Mn)	(US\$ Mn)	1477
Face Value	Rs	10
52 Weeks High/Low	Rs	274/106
Average Daily Volume	('000)	28894
BSE Code		540065
Bloomberg		RBK:IN

Source: Bloomberg

One Year Performance



Source: Bloomberg

% Shareholding	Mar-21	Dec-20
Promoters	0.00	0.00
FII	34.25	35.17
DII	23.11	24.67
Others	42.64	40.16
Total	100	100

Source: BSE

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Financials

Financials (Rs Bn)	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	YoY	QoQ
Interest Earned	21.6	22.1	22.3	20.8	19.8	19.2	-12.9%	-2.9%
Interest Expended	12.3	11.9	11.9	11.5	10.7	10.2	-14.4%	-5.2%
NII	9.2	10.2	10.4	9.3	9.1	9.1	-11.3%	-0.2%
Other Income	4.9	5.0	3.3	4.6	5.8	6.9	37.5%	18.7%
Net Income	14.1	15.2	13.7	13.9	14.9	15.9	4.8%	7.2%
Operating expenses	6.9	7.7	6.8	6.7	6.8	7.2	-6.7%	5.1%
PPoP	7.2	7.5	6.9	7.2	8.0	8.8	16.6%	8.9%
Provisions	6.2	6.0	5.0	5.3	6.1	7.7	27.5%	25.7%
Profit Before Tax	0.9	1.5	1.9	1.9	2.0	1.1	-26.9%	-43.5%
Tax	0.2	0.4	0.5	0.5	0.5	0.3	-4.0%	-27.2%
Net Profit	0.7	1.1	1.4	1.4	1.5	0.8	-34.1%	-48.8%
Balance sheet								
Net-worth	105	106	107	109	126	127	19.7%	0.6%
Deposits	629	578	617	645	672	731	26.5%	8.8%
Advances	596	580	567	562	564	586	1.0%	3.9%
Total assets	915	890	924	933	964	1007	13.1%	4.4%
Asset Quality								
GNPA (%)	3.3	3.6	3.4	3.3	4.5	4.3	71 bps	-19 bps
NNPA (%)	2.1	2.0	1.6	1.4	2.5	2.1	7 bps	-38 bps
PCR (%)	38.5	44.3	53.2	59.4	46.1	52.3	795 bps	623 bps
Capital adequacy								
Tier 1 Capital	15.0	15.3	15.2	15.1	17.1	16.6	130 bps	-44 bps
Tier 2 Capital	1.1	1.1	1.2	1.4	0.9	0.9	-25 bps	1 bps
CRAR	16.1	16.4	16.4	16.5	17.9	17.5	105 bps	-43 bps
RWA/Total Assets	74.5	75.7	74.3	74.8	74.5	73.5	-220 bps	-100 bps

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 (16.6%) 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 1.2%/9.6% in FY22 and recover back to 1.4%/12.3% in FY23. At CMP the stock trades at 0.9x its FY22E ABV and 0.8x its FY23E ABV. **We assign ACCUMULATE rating with Target Price of Rs 210/share, valuing the stock at a target multiple of 0.9x FY23E ABV.**

Highlights of the Conference Call

Asset quality

- Slippages for the quarter stood at Rs 14.39 bn, of which about 80% were from the non-wholesale segment.
- Given the partial lockdown started in the middle of April, the collection efficiency so far has adversely impacted by 2-3% points.
- Slippages for the year amounted to Rs 31.48bn. out of which ~Rs 13bn came from the credit cards loans, ~Rs 4bn came from the microfinance book. ~Rs 8bn came from the other retail book. • ~Rs 6bn came from the wholesale book
- Credit cost for credit card business will normalize to pre pandemic levels in H2FY22

Provisions

- Bank has set aside 100% on credit card loans overdue for over 180 days and 50% for the micro lending slippages as a prudential measure which resulted in the uptick in the provisioning.
- PCR including write-offs improved to 72% (815 bps YoY /342 bps QoQ) & excluding write-offs improved to 52.3% (795 bps YoY /623 bps QoQ). Management is looking to increase this ratio further in FY22 to over 80% for PCR including write-offs and over 60% for excluding write-offs.
- There are no contingent Covid provisions on the balance sheet

Restructuring & ECLGS

- Total restructuring stood at Rs 927 Cr (1.6% of loans). Out of which, wholesale contributes Rs 347 Cr, while retail contributes Rs 580 Cr. Bank has taken requisite provisioning on the same.
- Total amount disbursed under ECLGS is ~ Rs 1212 Cr, with wholesale contributes Rs 680 Cr, and retail contributes Rs 530 Cr.

Microfinance

- Micro banking, outside of 3-4 states, the businesses on the ground are doing well with overall collection efficiencies at 95% - 97%.
- Onboarding and other branch operations have now completely moved to digital and customer identification is through biometric data, reducing instances of frauds, ringleaders etc.
- Bank's 90 plus DPD portfolios as of Feb 2021 stood at 2.5% vs 5.35% for the market.
- Micro banking book saw a growth of 6% QoQ, despite negligible dispersal in the four impacted states such as Assam, West Bengal, Maharashtra and Punjab.
- The new portfolio which is around half of the total book continues to perform well at over 99.5% collection efficiency levels.
- Average duration of MFI book is ~18 months

Credit cards

- Bank issued 3.82 lakh new cards in Q4FY21 vs 3.5 lakhs QoQ. Overall, the new card issuance stood at 9.8 lakhs in FY21 vs 14.5 lakhs in FY20. Market share up by 10 bps YoY 4.7%.
- Out of 5.5% GNPA's, 1.3% of customers have been paying one or more EMIs. Management believe that GNP in credit card will start coming down from the next quarter.

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Onboarding and other branch operations have now completely moved to digital and customer identification is through biometric data, reducing instances of frauds, ringleaders etc.

Out of 5.5% GNPA's, 1.3% of customers have been paying one or more EMIs.

Financials

P&L (Rs Bn)	FY20	FY21	FY22	FY23	Ratios	FY20	FY21	FY22	FY23
Interest income	85.1	82.1	98.3	119.5	Growth (%)				
Interest expense	48.8	44.3	54.6	67.1	NII	43	4	15	20
NII	36.3	37.9	43.7	52.4	PPOP	40	14	16	17
Non-interest income	19.1	20.6	25.8	30.6	PAT	-42	0	148	41
Net revenues	55.4	58.5	69.5	82.9	Advances	7	1	19	22
Operating expenses	28.3	27.5	33.7	41.0	Deposits	-1	26	20	19
PPOP	27.1	30.9	35.7	42.0	Spread (%)				
Provisions	19.6	24.0	18.9	18.2	Yield on Funds	10.5	9.1	9.6	10.0
PBT	7.5	6.9	16.9	23.8	Cost of Funds	6.7	5.6	6.0	6.3
Tax	2.5	1.8	4.2	6.0	Spread	3.7	3.5	3.5	3.6
PAT	5.1	5.1	12.6	17.8	NIM	4.5	4.2	4.3	4.4
					Asset quality (%)				
Balance sheet	FY20	FY21	FY22	FY23	Gross NPAs	3.6	4.3	4.0	3.4
Share capital	5	6	6	6	Net NPAs	2.0	2.1	1.6	1.5
Reserves & surplus	101	121	131	146	Provisions	44	52	61	58
Net worth	106	127	137	152	Return ratios (%)				
Deposits	578	731	875	1042	RoE	5.6	4.4	9.6	12.3
Borrowings	170	112	96	100	RoA	0.6	0.5	1.2	1.4
Other liability	36	36	39	42	Per share (Rs)				
Total liabilities	890	1007	1147	1337	EPS	10	8	21	30
Fixed assets	5	5	5	6	BV	208	212	229	254
Investments	181	232	264	294	ABV	185	191	211	233
Loans	580	586	698	849	Valuation (x)				
Cash	89	134	141	146	P/E	18.3	21.4	8.6	6.1
Other assets	35	49	39	43	P/BV	0.9	0.9	0.8	0.7
Total assets	890	1007	1147	1337	P/ABV	1.0	1.0	0.9	0.8

Source: Dalal & Broacha Research, Company

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