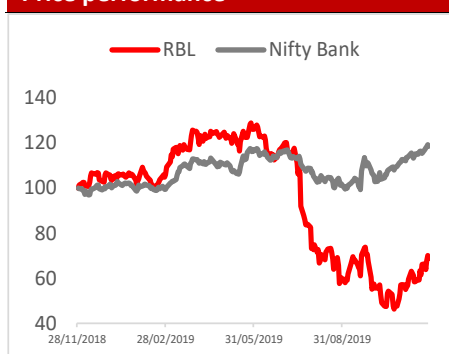



ACCUMULATE

Current Price (Rs)	339
52 Week Range	230/716
Target Price (Rs)	391
Upside (%)	15%

Key Share Data

Market Cap (Rs.bn)	145.93
Market Cap (US\$ mn)	2050
No of o/s shares (Cr)	42.8
Face Value	10
BSE Code	540065
NSE Code	RBLBANK
Bloomberg	RBK:IN

Price performance


% Shareholding	Sep-19	Jun-19
FII	21.91	22.1
DII	22.45	21.8
Others	55.65	56.1
Total	100	100

QIP completion: A shot in the arm

RBL Bank has successfully completed a QIP of Rs 2025 Cr involving an issuance of 5.8 Cr shares at Rs 351 apiece. **The fresh capital will go a long way in supporting the bank's growth plans over the next few years, especially as economic growth is likely to pick up in the coming quarters.** Importantly, it will also help the bank to take accelerated provisioning for its problem assets. **Strategic clarity, cautious approach on corporate loans & sturdy growth in the retail segment make RBL attractive for long term investors.**

The QIP has increased the bank's total capital adequacy ratio to 15.3% (from 12.3% as on Sep 30, 2019), and the core equity tier I ratio to 14.3% (from 11.3% as on Sep 30, 2019). The overall allocation to domestic investors including mutual funds and insurance companies is approximately 60% with the balance allocated to foreign institutional investors in Asia and Europe.

Earlier in November, Bank has received its board's approval to raise Rs 826 cr via preferential allotment of equity shares to a clutch of investors. Out of the prospective investors, Bajaj Finance has withdrawn from preferential issue, reducing the total value of preferential allotment by Rs 150 Cr. Thus, Bank will receive a capital infusion of Rs 676 Cr through preferential allotment. The list of prospective investors includes WF Asian Reconnaissance Fund (1.45% of post preferential offer holding), Ishana Capital Master Fund (1.39%), East Bridge Capital Master Fund I (0.97%) and FEG Mauritius FPI (0.56%).

We believe that the preferential allotment will be completed in the next four to five weeks. Post the preferential allotment, the bank's total capital adequacy ratio will further increase to 16.3%, Core equity tier I ratio to 15.3% and TTM book value will increase to Rs 207. The bank's preferential allotment of 1.98 Cr shares at Rs 340.7 per share will result in equity dilution of ~4.6%.

Valuation

Capital raising by RBL Bank is credit positive as it helps strengthen its balance sheet and provide an additional buffer to cushion any adverse effect of sudden spikes in slippages. We believe that the stock will remain under pressure until the completion of recognition of its stress pool and will then resume its high RoA trajectory.

We expect the bank's RoA/RoE to moderate to 0.8%/8% in FY20 and recover back to 1.3%/13% in FY21. Factoring in the current scenario and management guidance, we expect 26% CAGR in advances in FY19-21E, with higher focus on the retail segment.

At CMP the stock trades at 1.8x its FY20E ABV and 1.6x its FY21E ABV. We change our target price from Rs 381/share to Rs 391/share, valuing the stock at a target multiple of 1.8x FY21E ABV. With the recent correction in the stock price, we upgrade the stock from **HOLD** to **ACCUMULATE**.

Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	PB (X)
FY19	25395	44	19398	46	8670	37	186	2.0
FY20E	33712	33	25692	32	6984	(19)	217	1.8
FY21E	44369	32	34009	32	14803	112	263	1.6



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Adequate capital to absorb asset quality pressure

Particular	Rs Cr
Gross NPA	1539
Provision	627
Net NPA	912
Stress Book	1000
Total Stress (Net NPA+ Stress Book) - A	1912
Provisions made in H1 - B	746
Capital Raising	
QIP	2025
Preferential Allotment	676
Expected operating profit in FY20	2569
Total Capital addition C	5270
Growth capital (C-A+B)/ Hypothetical as on Date	2612

Source: D&B Research, Company

In the last quarter, the bank's asset quality deteriorated significantly as its gross nonperforming loans jumped 95% QoQ to Rs 1,539 Cr, led by a six-fold jump in C&IB GNPA's to Rs 842 Cr (3.8%). Management disclosed a stressed pool of Rs 1800 Cr pertaining to four groups (East-based group, diversified media group, south-based coffee group, and west-based plastics group plus a buffer); out of which, a significant amount (~ Rs 800 Cr) has been recognized as NPA and bank has provided Rs 350 cr for the same, while balance will be recognized in the coming quarters. We believe that credit cost will peak in the next two quarters. Post Q4 FY20, the bank's slippage will likely normalize in the range of Rs 250-300 cr. With adequate capital, the bank can freely provide higher provisions to the stressed pool and need not worry about growth capital.

Operating performance remains intact

Despite significantly deterioration in asset quality, the Bank's operating performance remained strong, with operating profit grew by 42% YoY and 3% QoQ to Rs 6358 Mn in Q2FY20, supported by strong growth in NII (46% YoY) and healthy traction in other income (33% YoY). Bank's net interest margin has improved significantly in last few quarters (stood at 4.3% in Q2FY20 vs 3.5% in Q1FY18), mainly due to better Yield on Advances (stood at 12.1% vs 10.95 in Q2FY19) & Change in loan mix towards Non-wholesale book (contributing 48% of total loan in Q2FY20 Vs 41% in Q2FY19). Despite low CASA deposits, RBL's NIMs have been steadily trending upwards, mainly due to the rising share of high yielding retail loans and focus on risk-based pricing. Bank has knowingly stayed away from tricky segments like CVs and 2Ws and stick to a few ranges of products. With focused on growing the retail book at a faster pace, the bank's overall loan book will further diversify and reduce overall risk. Thus going forward, we believe the bank's operating performance will remain intact.

Particular	As on Q2FY20/Base case scenario	QIP of Rs 2025 Cr	Post preferential allotment of Rs 676 Cr
Tier 1 Capital Funds	11.3%	14.3%	15.3%
Tier 2 Capital Funds	1.0%	1.0%	1.0%
Capital Funds	12.3%	15.3%	16.3%
BVPS	181	201	207
ABVPS	160	183	189
As per our estimates FY21			
Tier 1 Capital Funds	9.6%	11.6%	12.3%
Capital Funds	11.0%	13.0%	13.6%
BVPS	218	234	239
ABVPS	192	212	217
RoE	16	14	13
Total number of shares (in Cr)	43.1	48.8	50.8
Equity dilution	-	13	18



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P&L (Rs Bn)	FY18	FY19	FY20E	FY21E
Interest Earned	45	63	83	109
Interest Expended	27	38	49	64
NII	18	25	34	44
Other Income	11	14	19	23
Net Income	28	40	52	68
Operating expenses	15	20	27	34
PPoP	13	19	26	34
Provisions	4	6	16	14
Profit Before Tax	10	13	10	20
Tax	3	4	3	5
Net Profit	6	9	7	15

Balance sheet (Rs Bn)	FY18	FY19	FY20E	FY21E
Equity	4	4	5	5
Reserves	63	71	103	116
Deposits	439	584	750	953
Borrowings	93	118	121	126
Other liabilities	20	26	46	63
Total liabilities	619	804	1025	1264
Cash & Bank	43	66	102	111
Investments	154	168	213	259
Advances	403	543	679	858
Fixed Assets	3	4	5	7
Other Assets	15	22	25	29
Total Assets	619	804	1025	1264

Ratios (%)	FY18	FY19	FY20E	FY21E
Growth				
NII	45	44	33	32
PPOP	45	46	32	32
PAT	42	37	-19	112
Advances	37	35	25	26
Deposits	27	33	29	27
Returns				
ROA	1.1	1.2	0.8	1.3
ROE	12	12	8	13

Ratios (%)	FY18	FY19	FY20E	FY21E
Asset Quality				
GNPA	1.4	1.4	3.7	2.7
NNPA	0.8	0.7	1.9	1.3
PCR	45	51	49	53
Per Share (Rs)				
EPS	15	20	14	29
ABVPS	152	168	186	217
P/E	22	17	25	12
P/ABVPS	2.2	2.0	1.8	1.6



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