



**DALAL & BROACHA**  
STOCK BROKING PVT. LTD.

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## Company update@ Dalal & Broacha

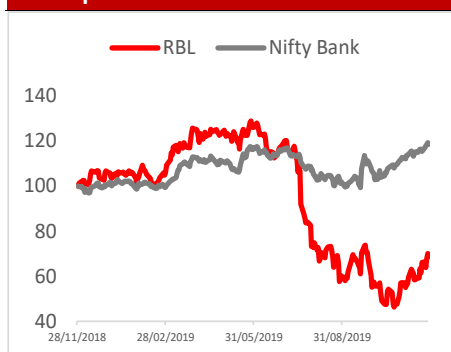
### HOLD

Current Price (Rs)	361
52 Week Range	230/716
Target Price (Rs)	381
Upside (%)	6%

### Key Share Data

Market Cap (Rs.bn)	155.28
Market Cap (US\$ mn)	2196.64
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	21.60	21.8
Others	56.49	56.1
Total	100	100

RBL Bank has received its board's approval to raise Rs 826 cr via preferential allotment of equity shares to a clutch of investors. We believe that the additional capital will not only help the banks to take accelerated provisioning for its problem assets, but also enable it to harness growth opportunities available in the market.

- Post the preferential allotment, the bank's Tier I capital would increase by 123 bps to 12.5% (from current 11.3% as on Sep 30, 2019).
- The bank's preferential allotment of 2.42 Cr shares at Rs 340.7 per share will result in equity dilution of ~5.6%.
- The list of prospective investors includes WF Asian Reconnaissance Fund (1.45% of post preferential offer holding), Ishana Capital Master Fund (1.39%), Bajaj Finance (0.97%), East Bridge Capital Master Fund I (0.97%) and FEG Mauritius FPI (0.56%).

### Adequate capital to absorb asset quality pressure

In the last quarter, bank's asset quality deteriorated significantly as its gross non-performing loans jumped 95% QoQ to Rs 1,539 Cr, led by a six fold jump in C&IB GNPA 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). The bank's operating performance will remain intact supported by sturdy growth in the retail business (led by credit cards/MFI) and the healthy margins. The bank has increased its focus on retail portfolio and managing asset quality instead of overall loan growth.

### 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%/15% in FY21. At CMP the stock trades at 2.2x its FY20E ABV and 1.8x its FY21E ABV. We value RBL Bank at 1.9x FY21E ABV and upgrade it to **HOLD** from **SELL** earlier with a revised target price of Rs 381.

### Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	PB (X)
FY19	25395	44	19398	46	8670	37	168	2.1
FY20E	33712	33	25692	32	6984	(19)	167	2.2
FY21E	43934	30	33574	31	14478	107	201	1.8



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RBL Bank is also raising funds from institutional investors through a qualified institutional placement offering (QIP). The bank has decided the floor price for the QIP at Rs 352.57 per equity share. The relevant date for QIP is 02 December 2019. Although the bank did not disclose the size of the fund raise, according to media sources, it is looking to raise up to Rs 2,025 cr.

Rs Mn	As on Q2FY20/ Base case scenario	Post preferential allotment of Rs 826 Cr	QIP of Rs 1600 Cr	QIP of Rs 2025 Cr
Tier 1 Capital Funds	11.3%	12.5%	14.9%	15.5%
Tier 2 Capital Funds	1.0%	1.0%	1.0%	1.0%
Capital Funds	12.3%	13.5%	15.9%	16.5%
BVPS	181	190	204	208
ABVPS	160	170	186	190
<b>As per our estimates FY21</b>				
Tier 1 Capital Funds	9.6	10.5	12.0	12.4
Capital Funds	10.9	11.8	13.4	13.8
BVPS	217	225	237	240
ABVPS	191	201	215	218
Total number of shares (in Cr)	43.1	45.5	50.0	51.2
Equity dilution	-	5.6	16.2	19.0



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P&L (Rs Bn)	FY18	FY19	FY20E	FY21E
Interest Earned	45	63	83	108
Interest Expended	27	38	49	64
<b>NII</b>	<b>18</b>	<b>25</b>	<b>34</b>	<b>44</b>
Other Income	11	14	19	23
<b>Net Income</b>	<b>28</b>	<b>40</b>	<b>52</b>	<b>67</b>
Operating expenses	15	20	27	34
<b>PPoP</b>	<b>13</b>	<b>19</b>	<b>26</b>	<b>34</b>
Provisions	4	6	16	14
<b>Profit Before Tax</b>	<b>10</b>	<b>13</b>	<b>10</b>	<b>19</b>
Tax	3	4	3	5
<b>Net Profit</b>	<b>6</b>	<b>9</b>	<b>7</b>	<b>14</b>

Balance sheet (Rs Bn)	FY18	FY19	FY20E	FY21E
Equity	4	4	5	5
Reserves	63	71	85	98
Deposits	439	584	750	953
Borrowings	93	118	121	126
Other liabilities	20	26	46	63
<b>Total liabilities</b>	<b>619</b>	<b>804</b>	<b>1006</b>	<b>1244</b>
Cash & Bank	43	66	83	92
Investments	154	168	213	259
Advances	403	543	679	858
Fixed Assets	3	4	5	7
Other Assets	15	22	25	29
<b>Total Assets</b>	<b>619</b>	<b>804</b>	<b>1006</b>	<b>1244</b>

Ratios (%)	FY18	FY19	FY20E	FY21E
Growth				
NII	45	44	33	30
PPOP	45	46	32	31
PAT	42	37	-19	107
Advances	37	35	25	26
Deposits	27	33	29	27
Returns				
ROA	1.1	1.2	0.8	1.3
ROE	12	12	8	15

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	15	32
ABVPS	152	168	167	201
P/E	24	18	23	11
P/ABVPS	2.4	2.1	2.2	1.8



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