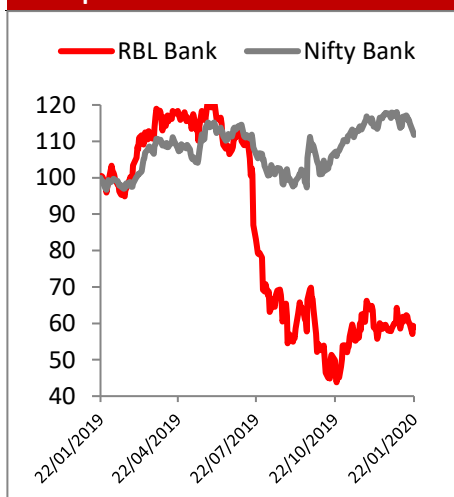


**ACCUMULATE**

Current Price (Rs)	339
52 Week Range	230/716
Target Price (Rs)	385
Upside (%)	14

Key Share Data

Market Cap (Rs.bn)	172.35
Market Cap (US\$ mn)	2422.57
No of o/s shares (Cr)	50.83
Face Value	10
BSE Code	540065
NSE Code	RBLBANK
Bloomberg	RBK:IN

Price performance

% Shareholding	Dec-19	Sep-19
FII	27.13	21.90
DII	27.37	22.45
Others	45.50	55.65
Total	100	100

RBL Bank (RBL) reported its Q3FY20 performance which beat our estimates on the profitability front.

- NII came in at INR 9227 Mn, +6.2% QoQ / +40.8% YoY and 2% above our est.
- Other Income came in at INR 4870 Mn, +10.3% QoQ / +30.2% YoY and 3% above our est.
- PPOP came in at INR 7322 Mn, +15% QoQ / +47% YoY and 11% above our est.
- Provisions came in at INR 6383 Mn, +20% QoQ / +297% YoY and 13% above our est.
- PAT came in at INR 700 Mn, +29% QoQ / (-69%) YoY and 4% above our est.

Fundamentally strong operating performance

NIMs continued their upward trajectory and stood at 4.57% up by 45 bps YoY/ 22 bps QoQ, supported by higher yield on advances (up 110 bps yoy), which was aided by change in loan mix toward high-yielding retail assets. Bank's operating efficiency improved during the quarter, with Cost-to-income (C/I) ratio for the quarter declined by 4 bps YoY/ 87 bps QoQ to 48.1%, mainly due to lower opex growth of 28% YoY vs. 41% YoY net revenue (NII + other income) growth. Management expects this ratio (C/I) remain at just over 50% in near term. Other income growth remained healthy at 30% YoY/ 10% QoQ mainly on account of healthier growth in credit card fee.

Bank's loan growth slowed to ~20/2%, as wholesale loans shrank 3.9% QoQ. Wholesale was adversely impacted due to deterioration in economic environment and bank's strategy to rebalance portfolio to further granularize. C&IB loans were down by 4% QoQ, while CB loans shrank 3.6% QoQ. However, Bank continued to witness healthy traction in its non-wholesale book as it grew by 42% YoY/8% QoQ led by Retail and DB & FI segment, which grew by 49% & 25% respectively. Amongst retail loans, Credit cards (2.1x YoY) & LAP (+32% YoY) grew at a faster rate. In DB&FI segment, MSME (+40% YoY) & Micro-banking (+31% YoY) grew at a faster rate, while IFI growth was comparatively slower (+2.9% YoY). Management believes share of non-wholesale would increase to 55% over next 12 months.

Asset quality remains elevated (GNPA 3.3% vs 2.6% QoQ / 1.4% YoY)

RBL's asset quality remained under pressure during the quarter, with GNPA stood at 3.3% (up from 2.6% in Q2 FY20), while NNPA stood at 2.07% (up from 1.56% in Q2 FY20). Slippages remain elevated (Rs 1,048 Cr vs Rs 1,377 Cr QoQ) although they have accrued mainly from the identified stressed exposure. Out of total slippages, ~ Rs 710 Cr came from the watch list that comprises of 3-4 accounts. With this, over 80% of previously identified exposure of Rs 1,800 Cr is marked as NPA. Remaining ~Rs. 300 Cr is expected to slip in Q4. Management does not expect a further increase in the earlier stated stressed exposure of Rs. 1800 Cr in the near term. Meanwhile, disruption in the state of Assam has adversely impacted collection efficiency, which is down to 85%. No new disbursements have been made since mid-November. Assam constitutes 4% mix of the micro banking book.

Valuation

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. Improvement in CASA ratio and higher share of retail lending book will support NIM going forward. We expect the bank's RoA/RoE to moderate to 0.6%/5% in FY20 and recover back to 1.4%/13% in FY21. Factoring in the current scenario and management guidance, we expect 22% CAGR in advances in FY19-21E, with higher focus on the retail segment. At CMP, RBL trades at 1.6x FY21E P/ABV. We maintain our ACCUMULATE rating with Target Price of Rs 385 (based on 1.8x 21E ABV).

Key Financials (Rs Mn)

Year	NII	Growth (%)	PPOP	Growth (%)	PAT	Growth (%)	ABVPS	PB (X)
FY19	25395	44	19398	46	8670	37	168	2.0
FY20E	34804	37	26698	38	4945	(43)	184	1.8
FY21E	45036	29	34355	29	15068	205	214	1.6



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Financials (Rs Bn)	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	YoY	QoQ	Q3FY20
Interest Earned	12.2	13.6	14.6	16.4	18.3	20.2	21.3	32%	1%	21.6
Interest Expended	7.2	8.1	8.7	9.8	11.0	12.1	12.6	25%	-2%	12.3
NII	5.0	5.5	5.9	6.6	7.4	8.2	8.7	41%	6%	9.2
Other Income	3.1	3.3	3.3	3.7	4.1	4.8	4.4	30%	10%	4.9
Total Income	15.3	16.9	18.0	20.1	22.4	25.0	25.7	31%	3%	26.4
Operating expenses	4.3	4.5	4.8	5.3	5.9	6.8	6.7	28%	0%	6.8
PPoP	3.8	4.3	4.5	5.0	5.6	6.2	6.4	47%	15%	7.3
Provisions	1.1	1.4	1.4	1.6	2.0	2.1	5.3	297%	20%	6.4
Profit Before Tax	2.7	2.9	3.1	3.4	3.6	4.1	1.0	-72%	-8%	0.9
Tax	0.9	1.0	1.0	1.1	1.1	1.4	0.5	-79%	-50%	0.2
Net Profit	1.8	1.9	2.0	2.3	2.5	2.7	0.5	-69%	29%	0.7
Balance sheet										
Net-worth	668	689	704	728	755	784	780	45%	35%	1055
Deposits	4390	4495	4779	5219	5839	6081	6283	21%	0%	6291
Advances	4027	4220	4587	4989	5431	5684	5848	20%	2%	5964
Total assets	6185	6256	6716	7220	8036	8405	8768	27%	4%	9146
Asset Quality										
GNPA (%)	1.40	1.40	1.40	1.39	1.38	1.38	2.60	194 bps	72 bps	3.33
NNPA (%)	0.78	0.75	0.74	0.72	0.69	0.65	1.56	136 bps	51 bps	2.07
PCR (%)	45	47	48	49	51	53	41	(1006 bps)	(222 bps)	39
Capital adequacy										
Tier 1 Capital	13.6	13.1	12.5	12.5	12.1	11.3	11.3	250 bps	376 bps	15.0
Tier 2 Capital	1.7	1.4	1.3	1.3	1.4	1.1	1.0	(22 bps)	4 bps	1.1
CRAR	15.3	14.6	13.7	13.8	13.5	12.4	12.3	228 bps	379 bps	16.1
RWA/Total Assets	77.7	81.9	83.2	78.1	74.2	78.2	76.4	(360 bps)	(187 bps)	74.5



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P&L (Rs Bn)	FY18	FY19	FY20E	FY21E
Interest Earned	45	63	82	104
Interest Expended	27	38	47	59
NII	18	25	35	45
Other Income	11	14	19	23
Net Income	28	40	54	68
Operating expenses	15	20	27	34
PPoP	13	19	27	34
Provisions	4	6	19	14
Profit Before Tax	10	13	7	20
Tax	3	4	2	5
Net Profit	6	9	5	15

Balance sheet (Rs Bn)	FY18	FY19	FY20E	FY21E
Equity	4	4	5	5
Reserves	63	71	102	114
Deposits	439	584	710	892
Borrowings	93	118	112	117
Other liabilities	20	26	49	65
Total liabilities	619	804	977	1193
Cash & Bank	43	66	89	107
Investments	154	168	201	242
Advances	403	543	657	810
Fixed Assets	3	4	5	6
Other Assets	15	22	25	28
Total Assets	619	804	977	1193

Ratios (%)	FY18	FY19	FY20E	FY21E
Growth				
NII	45	44	37	29
PPOP	45	46	38	29
PAT	42	37	-43	205
Advances	37	35	21	23
Deposits	27	33	22	26
Returns				
ROA	1.1	1.2	0.6	1.4
ROE	12	12	5	13

Ratios (%)	FY18	FY19	FY20E	FY21E
Asset Quality				
GNPA	1.4	1.4	3.8	2.8
NNPA	0.8	0.7	2.0	1.3
PCR	45	51	49	53
Per Share (Rs)				
EPS	15	20	10	30
ABVPS	152	168	184	214
P/E	22	17	35	11
P/ABVPS	2.2	2.0	1.8	1.6



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