

RBL Bank

Sector: Banking /Mid-Cap | Earnings Update – 4QFY19

BUY

22 April 2019

Background: RBL bank (RBL) came into operations in 1943 and was incorporated as a small, regional bank in Maharashtra with two branches in Kohlapur and Sangli. Post the change in the management team in 2010, it has been one among the fastest growing private sector banks and now has 324 interconnected branches and 341 interconnected ATMs spread across 20 Indian states and union territories serving ~6.51mn customers. The bank offers a comprehensive range of banking products and services customized to cater to the needs of large corporations, SMEs, agricultural customers, retail customers and development banking & financial inclusion (low income) customers. Loan book of the bank grew at a CAGR of 52% over FY11 to FY19 and stood at INR 543bn as of 4QFY19 with a deposit base of INR 584bn.

Sensex	38,645
Nifty	11,594
Price	INR 681
Target Price	INR 753
Recommendation	BUY
52 Week High/Low	INR 692/434
Bloomberg / Reuters	RBK IN/ RATB.BO
Equity (shares in mn)	426.7
Mkt. Cap in bn	INR 290.85/ \$ 4.17
Avg. Daily Vol. ('000)	1920.09
Avg. Daily Vol. (mn)	INR 1308.73 / \$ 18.77

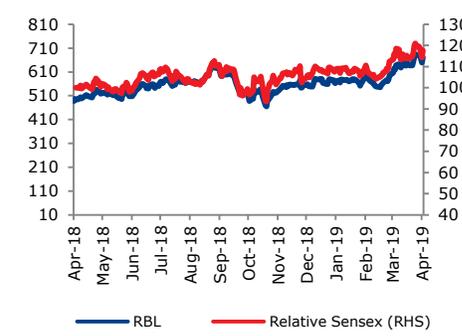
Shareholding	Mar 18	Dec 18	Mar 19
Promoters (%)	0.00	0.00	0.00
FII (%)	15.51	15.92	18.79
DII (%)	16.96	24.54	24.63
Others (%)	67.53	59.54	56.58
Pledge (% of promoter holding)	0.00	0.00	0.00

Valuation Summary (INR bn)

Y/E March	2019	2020E	2021E
Net Interest Inc	25.4	36.9	47.1
Other Inc	14.4	17.4	21.6
Pre Prov Profit	19.4	29.2	36.5
PAT	8.7	16.2	19.5
EPS	20.3	37.9	45.7
EPS growth (%)	29.2	86.8	20.3
PE	33.5	17.9	14.9
P /ABV	4.0	3.4	2.8
Div Yield (%)	0.4	0.3	0.3
ROA (%)	1.2	1.8	1.7
ROE (%)	12.2	19.5	19.5
Tier – 1 (%)	12.1	11.9	11.3
CAR (%)	13.5	13.2	12.8

Performance %

	1M	3M	12M
RBL	10.5	17.5	35.0
Sensex	6.6	8.9	15.7



Robust growth in business; margin expansion and lower slippages aid PAT growth

- RBL's advances grew by 34.9% YoY to INR 543.1bn in 4QFY19. The growth predominantly came from Retail assets (68% YoY), DB&FI segment (34% YoY) and C&IB segment (32% YoY). The wholesale & retail mix remained at 56% and 44% respectively. Based on their internal ratings, ~96.9% of the advances is offered to BBB- or higher rated borrowers. The management expects loan book to grow at 30-35% till FY20E.
- Deposits grew by 33% YoY to INR 584bn supported by increase in CASA base. CASA deposits grew by 36.8%YoY taking CASA ratio to 25% from 24.3% in 4QFY18. The management reiterated that it retains a targeted growth of 0.75-1% every year, till FY20E in CASA ratio. The digital acquisition channel now contributes 40-50% of new (deposit) account openings, implying granularity in funding profile coupled with low cost of acquisition.
- Net Interest Income grew by 47.6% YoY and stood at INR 7.4bn led by growth in advances and margin expansion. Reported NIM improved by 22bps YoY (10bps QoQ) to 4.2% primarily led by robust growth in retail advances, coupled with a 130bps YoY rise in yield on advances (due to MCLR re-pricing done in wholesale advances). Cost of funds also spiked by 60bps YoY led by 40bps rise in cost of deposits.
- Sequentially, fresh slippages dropped by 2.4% to INR 2.06bn. However, recoveries & write off were lower QoQ. Hence GNPA in absolute numbers rose by 8.5% QoQ to INR 7.5bn. However, due to healthy loan book growth GNPA as a % of advances remained flat at 1.38% (down 2bps YoY/ flat QoQ). Provisions this quarter spiked by 77% YoY to INR 2bn, taking the PCR to 65.3%.
- Restructured assets improved to 0.04% of advances, from 0.08% in 4QFY18. Net security receipts as a percentage of total assets declined to 0.01% (down 4bps QoQ).
- Operating profit showed a healthy growth of 46.2%YoY to INR 5.6bn aided by robust growth in other income (32% YoY). Core fee income (95% of Other Income) grew by a robust 43.7% YoY, taking the share of other income to Net revenue to 34%.
- Sequentially, Cost to Income ratio dipped to 51.2%, due to robust growth in fee income and lower growth in opex (37%YoY). Hence, despite a 77% surge in provisions, the bank saw a healthy PAT growth of 38.8% YoY.
- The management plans to take up the branch count to 380-400 by FY20E (currently 324 branches) to boost CASA accretion. The management also highlighted that going forward, the focus will also be on expanding the credit card segment in order to further ramp up the fee income.
- The board approved a capital raise of INR 35bn and also proposed a dividend of INR 2.7 per share, yielding 0.4% at CMP (both are subject to shareholder's approvals).

Valuation: Robust loan growth trajectory and well-maintained asset quality coupled with healthy margins, rapidly growing fee income and expected improvements in opex due to technological up gradation, gives a positive outlook for the bank. Hence, we give the stock a BUY rating, with a target price of INR 753 valuing at 3.1X of FY21E P/ABV.

Risks: Asset quality deterioration as the share of relatively riskier segment increases, slower than expected CASA mobilization, exit of any Key Managerial Personnel.

Results Summary 4QFY19

Y/E March (INR bn)	4QFY19	4QFY18	YoY Growth	3QFY19	QoQ Growth
Net Interest Income	7.39	5.00	47.61%	6.55	12.77%
Other Income	4.09	3.12	31.17%	3.74	9.40%
Pre Provisioning Profit	5.60	3.83	46.17%	4.98	12.34%
PAT	2.47	1.78	38.77%	2.25	9.77%
Cost / Income (%)	51.22	52.85		51.56	
Gross NPA (%)	1.38	1.40		1.38	
Net NPA (%)	0.69	0.78		0.72	
Prov Coverage ratio (%)	65.30	57.57		63.22	
CAR (%)	13.46	15.33		12.86	

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