

**Q2FY20 RESULT UPDATE | BANKING AND FINANCIAL SERVICES**

# RBL Bank

## More pain as stress pool expands

Although we were prepared to brace for an unpleasant print on asset quality, RBL Bank's reported slippages exceeded our steep Rs12.2bn estimate by a significant 10%. The stress pool has now expanded, accounting for a buffer zone, to Rs18bn (of which, Rs8bn slipped during Q2FY20). While management attributed economic downturn as one of the reasons for the this expanding ripple of stress, we believe the results leave equally legitimate doubts on the sustenance of asset quality and an early return to normalised earnings in Q4FY20E. We have further slashed our earnings estimates (Exhibit 2, pp. 2), target price, and rating (top right box).

- What went wrong?** RBL Bank reported Rs13.77bn in slippages, of which Rs2.5bn worth of slippages were technical in nature (substantially, a single exposure), slipping and recovering. Majority of Rs8bn slippages happened from an identified stressed pool, leaving behind another Rs10bn of stress pool, which may fully materialize. The caveat here is that Rs18bn includes a buffer, with the bank's management willing to err on side of caution than have an unpleasant surprise later through higher slippages.
- What worked well?** Loan growth momentum (~27.5% YoY) was on expected lines as RBL Bank began rationalizing exposures during Q2FY20, leading to a slowdown in corporate loans. Further, the retail loan momentum continued (85.6% YoY), driven by business loans (1.8x YoY and, credit cards (1.2x YoY). Lastly, fees slackened on the back of a loss of momentum in the balance sheet, with processing fees declining the most (-46.4% YoY), followed by general banking and FX fees. Card fees remained a robust contributor (50%) to overall other income, fees/avg. assets was 1.8% (annualized).
- Earnings normalcy by Q4FY20:** The management's quest to return to normalcy in earnings as early as Q4FY20, by continuing with higher (but sequentially lower) provisions in Q3FY20E and some leftover provisioning in Q4FY20E, assumes the stress pool stays static. However, the management did not clarify the provisioning levels it may want to achieve before resuming a normalized earnings trajectory. This compares with an earlier guidance of 25–30% PCR on the stress pool. We estimate that the bank shall absorb another Rs5bn in NPL provisioning in H2FY20E.
- Valuation normalcy to take longer:** RBL Bank was already treading a tightrope with its higher credit costs and rich valuations. Hence, the multiples did not take long to snap as the bank identified stress in its corporate portfolio. With Q2FY20 results, we believe RBL Bank will have to endure a longer path to valuation recovery than it will have to for earnings normalcy. Hence, we feel raising fresh capital becomes tougher although the lower tax rates do provide some relief.

**Valuation:** We are downgrading the stock to 'ACCUMULATE' with a target price of Rs370, slashing the fair value multiple to 2.2x FY21E ABV from 3.5x previously. Key upside risk is recovery/reduction in stress pool.

### Financial summary

Rs mn	FY17	FY18	FY19	FY20E	FY21E
Net interest income	5,564	8,192	12,213	17,663	25,395
Growth (%)	19.6	26.3	49.1	44.6	43.8
Net profit	2,072	2,925	4,460	6,351	8,670
Growth (%)	20.7	9.7	52.5	42.4	36.5
ROE (%)	20.8	19.0	12.2	11.5	12.2
ROA (%)	1.5	1.3	1.0	1.1	1.2
ABV (Rs)	245.3	277.7	111.1	152.4	168.7
EPS (Rs)	46.8	51.3	11.9	15.1	20.3
P/E (x)	10.3	9.4	24.1	19.0	14.1
P/ABV (x)	2.0	1.7	2.6	1.9	1.7

Source: Company, IndiaNivesh Institutional Research

## ACCUMULATE

CURRENT PRICE (INR)

**287**

UPSIDE/DOWNSIDE

**▲29%**

TARGET PRICE (INR)

**370**

PREVIOUS TARGET (INR)

**630**

(CMP as on 22 Oct 2019 closing)

### STOCK INFO

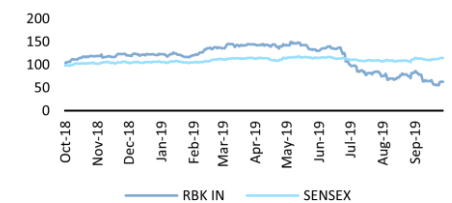
BSE	540065
NSE	RBLBANK
Bloomberg	RBK IN
Reuters	RATB.NS
Face Value (Rs)	10
Equity Capital (Rs mn)	4,305
Mkt Cap (Rs mn)	123,519
52wk High/Low	717 / 241
Avg Daily Vol (BSE+NSE)	14,497,850

### SHAREHOLDING PATTERN (%)

Promoters	-
Public	100.00

(as on Sept, 2019)

### PRICE PERFORMANCE



### STOCK PERFORMANCE

	3m	6m	12m
RBK IN Equity	(40.0)	(57.9)	(38.8)
SENSEX	1.6	(0.5)	13.5

Source: Bloomberg, IndiaNivesh Institutional Research

**Ravikant Bhat**

+91 22 6240 6474

ravikant.bhat@indianivesh.in

**Prithvish Uppal**

+91 22 6240 6453

prithvish.uppal@indianivesh.in

**Exhibit 1: Quarterly table**

(Rs mn) Y/E: Mar	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Q2FY20E	Var. (%)
Interest income	21,262	14,634	45.3	20,227	5.1	21,007	1.2
Interest exp.	12,575	8,705	44.5	12,054	4.3	12,622	(0.4)
NII	8,687	5,930	46.5	8,173	6.3	8,385	3.6
Other income	4,415	3,331	32.5	4,812	(8.2)	5,067	(12.9)
- Fee income	3492	2,726	28.1	4,069	(14.2)	4,385	(20.4)
- Forex income	388	372	4.4	503	(22.8)	428	(9.2)
- Trading profits	535	233	129.4	241	122.4	254	110.4
Net income	13,102	9,261	41.5	12,985	0.9	13,452	(2.6)
Opex	6,744	4,770	41.4	6,797	(0.8)	7,001	(3.7)
-C/I ratio	51.5	51.5		52.3		52.0	
-Staff exp.	1,961	1,509	29.9	1,845	6.2	2,030	
Op. profit	6,358	4,491	41.6	6,188	2.8	6,452	(1.4)
Provisions	5,333	1,397	281.8	2,132	150.2	3,080	73.1
- NPL prov.	5,390	1,090	394.5	2,010	168.2	2,833	
PBT	1,025	3,094	(66.9)	4,056	(74.7)	3,371	(69.6)
Taxes	482	1,048	(54.0)	1,386	(65.2)	1,129	
Tax rate (%)	47.0	33.9	-	34.2	-	33.5	
PAT	543	2,045	(73.4)	2,671	(79.7)	2,242	(75.8)

Business	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Q2FY20E	Var. (%)
Business	1,213,052	936,628	29.5	1,176,480	3.1	1,258,635	(3.6)
Deposits	628,291	477,901	31.5	608,110	3.3	647,637	(3.0)
- CA	65,342	56,870	14.9	56,554	15.5		
- SA	101,155	60,216	68.0	100,338	0.8		
- CASA	166,497	117,086	42.2	156,892	6.1		
- TDs	461,794	360,815	28.0	451,218	2.3		
Advances	584,761	458,727	27.5	568,370	2.9	610,998	(4.3)
-Agri	0	15,597		0			
-Retail	201,380	108,473	85.6	183,900	9.5		
-SSI / SME	78,670	63,370	24.1	77,330	1.7		
-Corporate	304,711	271,287	12.3	307,140	(0.8)		
- CASA	26.5	24.5		25.8			
- CD ratio		96.0		93.5			

Key ratios	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Q2FY20E	Var. (%)
NIM (%) (calc)	4.19	3.80		4.11		4.24	
CAR (%)	11.88	13.12		12.07		11.87	
RoE (calc) (%)	2.78	11.75		13.89			
RoA (calc) (%)	0.25	1.26		1.30			
EPS (Rs.) (ann.)	5.05	18.99		24.97			

Asset Quality	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	Q2FY20E	Var. (%)
GNPAs (Rs mn)	15,391	6,450	138.6	7,892	95.0	17,835	(13.7)
GNPAs (%)	2.60	1.40		1.38		2.89	
NNPAs (Rs mn)	9,123	3,386	169.5	3,716	145.5	12,112	(24.7)
NNPAs (%)	1.56	0.74		0.65		1.98	
PCR (%)	40.73	47.51		52.91		32.09	
Slippages	13,770	1,420	869.7	2,250	512.0	12,311	11.9

Source: Company, IndiaNivesh Institutional Research

**Exhibit 2: Revision in earnings estimates**

Y/E Mar (Rs mn)	FY20E			FY21E		
	Earlier	Revised	% change	Earlier	Revised	% change
Net interest income	34,454	34,837	1.1%	48,055	42,464	-11.6%
PPOP	27,075	26,809	-1.0%	37,549	34,207	-8.9%
PAT	10,022	7,534	-24.8%	15,467	12,545	-18.9%
EPS (Rs) *	23.4	17.5	-25.2%	36.2	29.1	-19.5%
ABV (Rs)	169.4	157.2	-7.2%	207.2	189.2	-8.7%

Source: Company, IndiaNivesh Institutional Research

\*Change in o/s equity, hence EPS change doesn't correspond to profit change. (Rs mn) Business growth is moderating

**Exhibit 3: Business momentum consolidating at lower growth rate**

(Rs bn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	% QoQ	% YoY	Comp.
<b>Business</b>	<b>701</b>	<b>755</b>	<b>842</b>	<b>871</b>	<b>937</b>	<b>1,021</b>	<b>1,127</b>	<b>1,176</b>	<b>1,213</b>	<b>3.1</b>	<b>29.5</b>	<b>-</b>
<b>Deposits</b>												
Savings	54	52	49	58	60	65	82	100	101	0.8	68.0	16.1
Current	32	41	48	52	57	63	64	57	65	15.5	14.9	10.4
CASA	87	93	97	110	117	128	146	157	166	6.1	42.2	
Retail term deposits	279	294	342	339	361	393	438	451	462	2.3	28.0	73.5
<b>Total</b>	<b>366</b>	<b>386</b>	<b>439</b>	<b>450</b>	<b>478</b>	<b>522</b>	<b>584</b>	<b>608</b>	<b>628</b>	<b>3.3</b>	<b>31.5</b>	<b>100.0</b>
<b>Advances</b>												
Retail	69	78	89	98	108	131	149	184	201	9.5	85.6	34.4
Corporate	200	223	238	250	271	285	304	307	305	(0.8)	12.3	52.1
Agriculture	21	20	19	15	16	16	16	0	0	n.m.	n.m.	-
MSME	46	48	57	59	63	68	74	77	79	1.7	24.1	13.5
<b>Total</b>	<b>336</b>	<b>369</b>	<b>403</b>	<b>422</b>	<b>459</b>	<b>499</b>	<b>543</b>	<b>568</b>	<b>585</b>	<b>2.9</b>	<b>27.5</b>	<b>100.0</b>
CASA	23.7	24	22	24.5	24.5	24.6	25	25.8	26.5			
CD ratio	91.8	95.5	91.7	93.9	96.0	95.6	93.0	93.5	93.1			

Source: Company, IndiaNivesh Institutional Research

**Exhibit 4: Corporate loan book being consolidated, shall temper overall loan growth momentum**

(Rs bn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	QoQ (%)	YoY (%)	Comp.
<b>Wholesale</b>	<b>200</b>	<b>223</b>	<b>238</b>	<b>250</b>	<b>271</b>	<b>285</b>	<b>302</b>	<b>307</b>	<b>305</b>	<b>(0.8)</b>	<b>12.3</b>	<b>52.1</b>
-C&IB	139	156	162	171	188	200	214	220	221	0.7	17.6	37.9
-CB	61	67	75	78	83	85	89	87	83	(4.6)	0.3	14.2
<b>Non-wholesale</b>	<b>136</b>	<b>146</b>	<b>165</b>	<b>172</b>	<b>187</b>	<b>214</b>	<b>239</b>	<b>261</b>	<b>280</b>	<b>7.2</b>	<b>49.4</b>	<b>47.9</b>
-BBB	69	78	89	98	108	131	149	184	201	9.5	85.6	34.4
-LAP and working capital	35	38	44	53	50	57	65	69	73	5.0	44.6	12.5
-Unsc business loans	14	10	9	12	12	14	15	40	35	(11.8)	183.3	6.0
-Cards	13	18	22	29	37	45	53	67	80	20.3	118.1	13.7
-Others	8	13	13	5	9	16	17	8	13	63.7	49.1	2.3
-DB & FI	46	48	57	59	63	68	74	77	79	1.7	24.1	13.5
-Micro banking	25	0	0	0	39	42	50	50	52	3.7	31.5	8.8
-IFI	16	0	0	0	17	17	16	17	16	(7.1)	(5.6)	2.7
-MSME	5	0	0	0	8	9	10	11	11	6.9	52.1	2.0
-Agri	21	20	19	15	16	16	16	0	0	n.m.	n.m.	0.0
<b>Wholesale (%)</b>	<b>59.6</b>	<b>60.5</b>	<b>59.0</b>	<b>59.2</b>	<b>59.1</b>	<b>57.1</b>	<b>55.7</b>	<b>54.0</b>	<b>52.1</b>			
<b>Non wholesale (%)</b>	<b>40.4</b>	<b>39.5</b>	<b>41.0</b>	<b>40.8</b>	<b>40.9</b>	<b>43.0</b>	<b>43.9</b>	<b>46.0</b>	<b>47.9</b>			

Source: Company, IndiaNivesh Institutional Research

**Exhibit 5: Fees reflecting balance sheet slowdown**

(Rs mn)	Q2FY18	Q3FY18	Q4FY18	Q1FY19	Q2FY19	Q3FY19	Q4FY19	Q1FY20	Q2FY20	QoQ (%)	YoY (%)	Comp.
<b>Core Fees</b>	<u>2,025</u>	<u>2,298</u>	<u>2,714</u>	<u>2,706</u>	<u>3,098</u>	<u>3,479</u>	<u>3,888</u>	<u>4,571</u>	<u>3,880</u>	<u>(15.1)</u>	<u>25.2</u>	<u>87.9</u>
-FX	344	345	380	325	372	383	467	503	388	(22.8)	4.4	8.8
-Proc Fee	567	666	651	649	713	800	894	869	466	(46.4)	(34.7)	10.5
-Gen. banking	304	276	380	325	434	487	428	549	349	(36.3)	(19.5)	7.9
-Distribution	81	92	163	108	93	104	156	91	116	27.3	25.2	2.6
-Credit cards	506	712	896	1,082	1,239	1,426	1,594	2,149	2,212	2.9	78.5	50.1
-Trade & Others	223	207	244	216	248	278	350	411	349	(15.1)	40.9	7.9
<b>Trading-FICC</b>	<u>386</u>	<u>284</u>	<u>406</u>	<u>554</u>	<u>233</u>	<u>262</u>	<u>205</u>	<u>241</u>	<u>535</u>	<u>122.5</u>	<u>129.6</u>	<u>12.1</u>
Total non-int. inc.	2,411	2,582	3,120	3,260	3,331	3,741	4,092	4,812	4,415	(8.2)	32.5	100.0
<b>Core fees / avg. ass. (%)</b>	<u>1.6</u>	<u>1.7</u>	<u>1.9</u>	<u>1.7</u>	<u>1.9</u>	<u>2.0</u>	<u>2.0</u>	<u>2.2</u>	<u>1.8</u>			

Source: Company, IndiaNivesh Institutional Research

**Income Statement (standalone)**

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Interest Earned	37,132	45,076	63,007	87,524	109,089
Interest Expended	24,918	27,413	37,612	52,687	66,625
<b>Net Interest Income</b>	<b>12,213</b>	<b>17,663</b>	<b>25,395</b>	<b>34,837</b>	<b>42,464</b>
Other Income	7,555	10,682	14,424	20,103	26,394
<b>Net Income</b>	<b>19,768</b>	<b>28,345</b>	<b>39,818</b>	<b>54,940</b>	<b>68,858</b>
Total Income	44,686	55,758	77,431	107,627	135,482
Total Expenses	6,102	9,527	14,058	19,970	24,442
<b>Pre Provision Profit</b>	<b>9,204</b>	<b>13,311</b>	<b>19,398</b>	<b>26,809</b>	<b>34,207</b>
Provisions	2,389	3,645	6,407	15,890	17,255
Profit before tax	6,815	9,665	12,992	10,920	16,952
Tax	2,354	3,315	4,322	3,386	4,408
<b>Profit after tax</b>	<b>4,460</b>	<b>6,351</b>	<b>8,670</b>	<b>7,534</b>	<b>12,545</b>

Source: Company, IndiaNivesh Institutional Research

**Balance Sheet (standalone)**

(Rs mn)	FY17	FY18	FY19	FY20E	FY21E
<b>Liabilities</b>					
Equity	3,752	4,197	4,267	4,306	4,306
Reserves and Surplus	39,594	62,634	71,197	77,996	89,249
Net Worth	43,346	66,831	75,464	82,302	93,555
Deposits	345,881	439,023	583,944	739,625	933,593
Borrowings	79,798	92,614	118,321	139,183	160,355
Other Liabilities & Provisions	17,713	20,031	25,850	34,251	38,638
<b>Total Liabilities</b>	<b>486,748</b>	<b>618,508</b>	<b>803,588</b>	<b>995,369</b>	<b>1,226,150</b>
<b>Assets</b>					
Cash and Bank Balance	29,479	25,893	48,395	47,861	60,307
Money at Call and Short Notice	12,457	16,951	17,626	30,496	40,726
Investments	134,817	154,475	168,404	192,302	224,062
Advances	294,490	402,678	543,082	682,065	861,091
Fixed Assets	2,587	3,340	4,025	4,190	4,371
Other Assets	12,917	15,170	22,056	38,456	35,591
<b>Total Assets</b>	<b>486,748</b>	<b>618,508</b>	<b>803,588</b>	<b>995,369</b>	<b>1,226,150</b>

Source: Company, IndiaNivesh Institutional Research

**Key Ratios (standalone)**

Y / E March	FY17	FY18	FY19	FY20E	FY21E
<b>Valuations / per share data</b>					
Earnings Per Share (Rs)	11.9	15.1	20.3	17.5	29.1
Book Value Per Share (Rs)	115.5	159.2	176.9	191.1	217.3
Adj Book Value Per Share (Rs)	111.1	152.4	168.7	157.2	195.5
P/E (x)	24.1	19.0	14.1	16.4	9.9
P/BV (x)	2.5	1.8	1.6	1.5	1.3
P/ABV (x)	2.6	1.9	1.7	1.8	1.5
<b>Balance Sheet Ratios (%)</b>					
CAR	13.7	15.3	12.5	11.5	10.8
Tier I	11.4	13.6	12.1	10.7	10.1
-CET1	11.4	13.6	12.1	10.7	10.1
Leverage (TA / Net worth)	11.2	9.3	10.6	12.1	13.1
Credit/Deposit	85.1	91.7	93.0	92.2	92.2
CASA	20.6	23.3	24.7	26.1	28.1
<b>Growth Y-o-Y (%)</b>					
Net Advances	38.7	36.7	34.9	25.6	26.2
Deposits	42.1	26.9	33.0	26.7	26.2
Business	40.7	31.5	33.9	26.7	26.6
Net Interest Income	49.1	44.6	43.8	37.2	21.9
Other Income	54.0	41.4	35.0	39.4	31.3
Net Profit	52.5	42.4	36.5	-13.1	66.5
<b>Return Ratios (%)</b>					
ROA	1.0	1.1	1.2	0.8	1.1
ROE	12.2	11.5	12.2	9.6	14.3
RoRWA	1.4	1.5	1.6	1.1	1.5
<b>Yield / Margin (%)</b>					
Yield on Funds	8.5	8.2	8.9	9.7	9.8
Cost of Funds	5.7	5.0	5.3	5.9	6.0
Interest Spread	2.8	3.2	3.6	3.9	3.8
Core spreads	3.8	3.9	4.5	5.0	5.2
Net Interest Margin	3.0	3.5	3.9	4.3	4.2
Cost / Income	53.4	53.0	51.3	51.2	50.3
<b>Other Ratios (%)</b>					
Gross NPA	1.2	1.4	1.4	3.8	3.3
Net NPA	0.6	0.7	0.6	2.1	1.1
PCR	53.2	49.3	54.0	44.4	67.8

Source: Company, IndiaNivesh Institutional Research

**RoA Tree (standalone)**

(%)	FY17	FY18	FY19	FY20E	FY21E
Interest Earned	8.45	8.16	8.86	9.73	9.82
Interest Expended	5.67	4.96	5.29	5.86	6.00
<b>Net Interest Income</b>	<b>2.78</b>	<b>3.20</b>	<b>3.57</b>	<b>3.87</b>	<b>3.82</b>
Other Income	1.72	1.93	2.03	2.23	2.38
<b>Net Income</b>	<b>4.50</b>	<b>5.13</b>	<b>5.60</b>	<b>6.11</b>	<b>6.20</b>
Total Income	10.17	10.09	10.89	11.97	12.20
Total Expenses	2.41	2.72	2.87	3.13	3.12
<b>Pre Provision Profit</b>	<b>2.10</b>	<b>2.41</b>	<b>2.73</b>	<b>2.98</b>	<b>3.08</b>
Provisions	0.54	0.66	0.90	1.77	1.55
Profit before tax	1.55	1.75	1.83	1.21	1.53
Tax	0.54	0.60	0.61	0.38	0.40
<b>Profit after tax</b>	<b>1.02</b>	<b>1.15</b>	<b>1.22</b>	<b>0.84</b>	<b>1.13</b>

Source: Company, IndiaNivesh Institutional Research