

# RBL Bank

Refer to important disclosures at the end of this report

## Capital raise comforting but asset quality to be key monitorable

- We believe the recent capital raising of Rs27bn that led to an improvement in CET 1 by 400bps to 15.3% is likely to provide some breather amid the bank's planned accelerated NPA recognition from its announced corporate stress pool and rising systemic stress.
- RBL has built a strong Card business (2.3mn; Rs80bn loan book), largely built around BAF customers (1.5mn), but the penetration still remains low, leaving enough scope for growth. RBL allayed concerns around its partnership with BAF given its entrenched relationship, and in a worst-case may opt for business buyout.
- The bank's card RoA is lower (2-2.25%) than peers (3.5-6%), primarily due to lower revenues and higher opex/LLP, which it expects to improve to 4% over next 2-3 yrs as it gains scale/vintage. We believe 100bps rise in card RoA can boost bank's RoA by 13bps.
- The recent capital raise has improved the bank's shock absorption capacity; however, near-term stock movement will largely track bank's asset-quality performance amid rising corporate stress and RoA trajectory. Maintain Hold/UW in EAP with a revised TP of Rs340.

**Near-term asset quality pain inevitable, pausing RoA's upward trajectory:** RBL has done heavy lifting in terms of NPA recognition from the corporate stress pool in Q1 leading to a sharp rise in the GNPA ratio to 2.6% (up 140bps qoq), while the residual stress pool (Rs10bn, 1.7% of loans including CCD/media group) should be largely recognized/resolved resolution in H2. However, given the rising systemic corporate stress, we believe that the bank's corporate stress pool will remain dynamic. We conservatively factor in higher NPAs, while the bank's stated plan to improve its current PCR of 41% gradually to 60% will keep LLP elevated, dragging down its RoA to 0.9% in FY20E, down from 1.2% in FY19.

**Credit card RoA can improve gradually as business gains scale and vintage:** Over the years, the bank has built a strong card base (2.3mn incl. 1.5mn BAF), growing at 43% yoy to Rs80bn, contributing 13.7% of loans. The bank believes that there are nearly 37mn BAF customers including 20mn EMI Cards, which are the potential target for RBL cards, which will not only provide enough growth for RBL but also for another player. It also allays concerns around a potential review of the partnership with BAF in 2021 given its entrenched relationship and in a worst-case has the option of even buying out the business. The bank's credit card RoA is relatively lower (2-2.25%) than peers (3.5-6%), which can potentially inch up to 4% over the next 2-3 years, led by better moderation in opex/LLP as it gains scale/vintage.

**Outlook and valuations:** We have updated our model with recent capital infusion at a better-than-expected price, which we believe is positive and resultantly raised our TP to Rs340 (1.4x Sep'21E ABV) vs. earlier TP of Rs320. However, we believe that near-term stock movement will largely track the bank's asset-quality performance amid rising corporate stress and RoA trajectory. Maintain Hold/UW in EAP. Key risks to our call include higher-than-expected stress build-up in the corporate/retail portfolio.

Please see our sector model portfolio (Emkay Alpha Portfolio): [BFSI-Banks \(page 11\)](#)

### Financial Snapshot (Standalone)

(Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Net income	28,345	39,818	53,380	64,643	80,264
Net profit	6,351	8,670	7,564	13,174	18,634
EPS (Rs)	16.0	20.5	16.2	26.1	36.9
ABV (Rs)	163.0	172.5	216.1	220.0	249.4
RoA (%)	1.1	1.2	0.9	1.2	1.4
RoE (%)	11.5	12.2	8.2	11.6	14.7
PE (x)	21.0	16.4	20.6	12.8	9.1
P/ABV	2.1	1.9	1.6	1.5	1.3

Source: Company, Emkay Research

<b>CMP</b>	<b>Target Price</b>
<b>Rs 335</b> as of (December 9, 2019)	<b>Rs 340 (▲)</b> 12 months
<b>Rating</b>	<b>Upside</b>
<b>HOLD (■)</b>	<b>1.5 %</b>

### Change in Estimates

EPS Chg FY20E/FY21E (%)	(11.8)/(2)
Target Price change (%)	6.3
Target Period (Months)	12
Previous Reco	HOLD

### Emkay vs Consensus

EPS Estimates		
	FY20E	FY21E
Emkay	16.2	26.1
Consensus	16.1	29.6
Mean Consensus TP (12M)	Rs 350	

### Stock Details

Bloomberg Code	RBK IN
Face Value (Rs)	10
Shares outstanding (mn)	488
52 Week H/L	717 / 231
M Cap (Rs bn/USD bn)	164 / 2.30
Daily Avg Volume (nos.)	18,831,100
Daily Avg Turnover (US\$ mn)	84.6

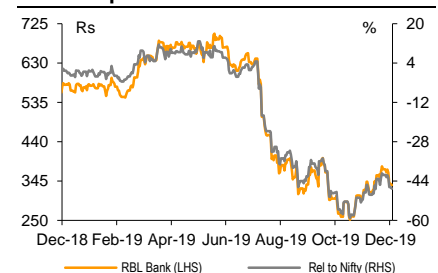
### Shareholding Pattern Sep '19

Promoters	-%
FIIs	18.6%
DIIIs	22.2%
Public and Others	59.2%

### Price Performance

(%)	1M	3M	6M	12M
<b>Absolute</b>	3	(7)	(50)	(39)
<b>Rel. to Nifty</b>	3	(14)	(50)	(45)

### Relative price chart



Source: Bloomberg

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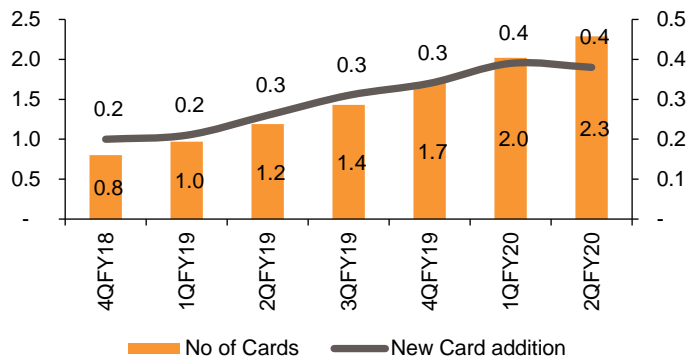
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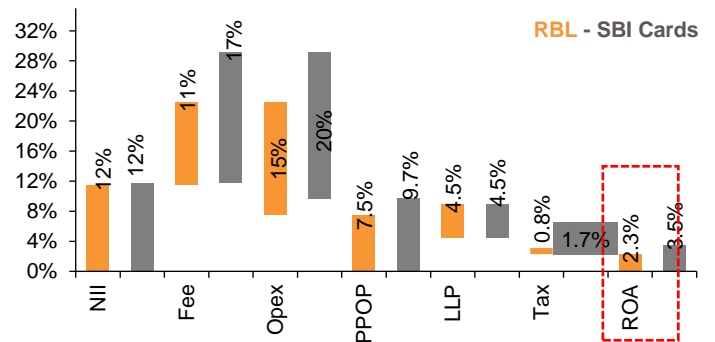
## Story in Charts

**Exhibit 1: New card addition has moderated a bit, but the bank has now built good scale on cards largely helped by BAF co-branded card**



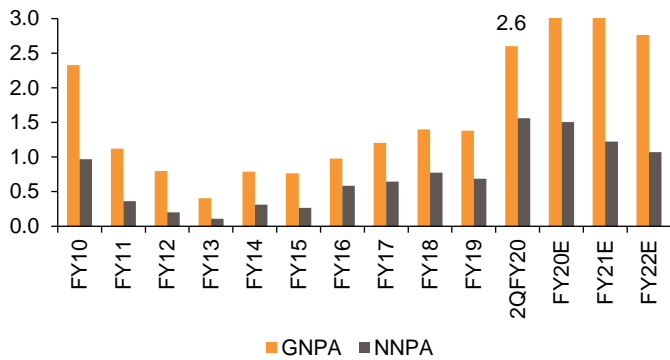
Source: Company, Emkay Research

**Exhibit 2: The bank's card RoA is lower due to lower fees (partly shared with BAF), higher cost-income ratio and elevated LLP**



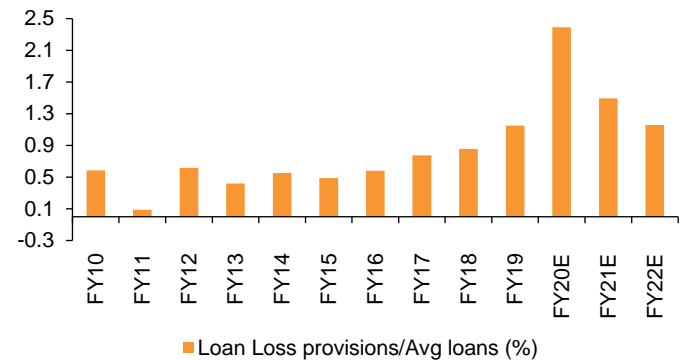
Source: Company, Emkay Research

**Exhibit 3: We expect GNPA ratio to remain elevated...**



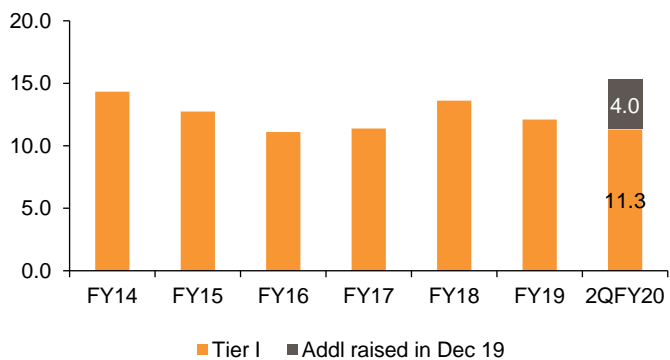
Source: Company, Emkay Research

**Exhibit 4: Higher NPAs and the bank's stated stance to improve PCR to 60% will call for elevated LLP**



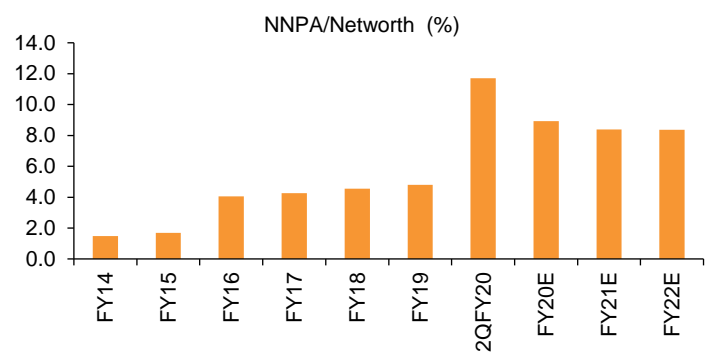
Source: Company, Emkay Research

**Exhibit 5: Recent capital raise of Rs27bn should boost bank's Tier I by ~400bps**



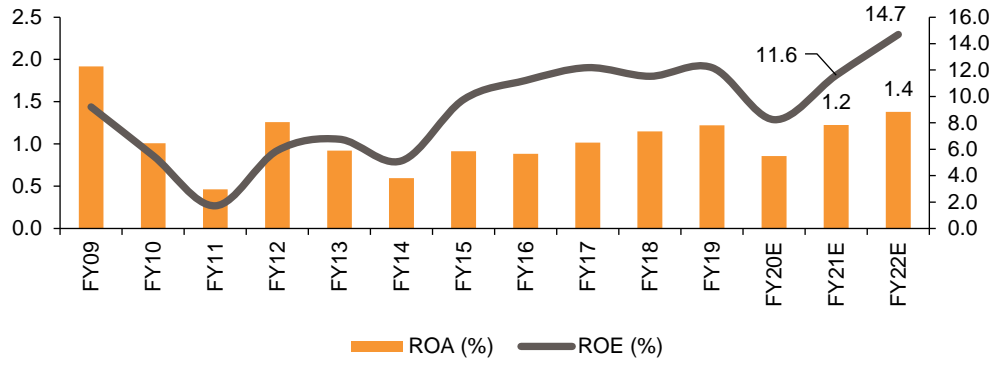
Source: Company, Emkay Research

**Exhibit 6: Recent capital raise has improved the bank's shock absorption capacity**



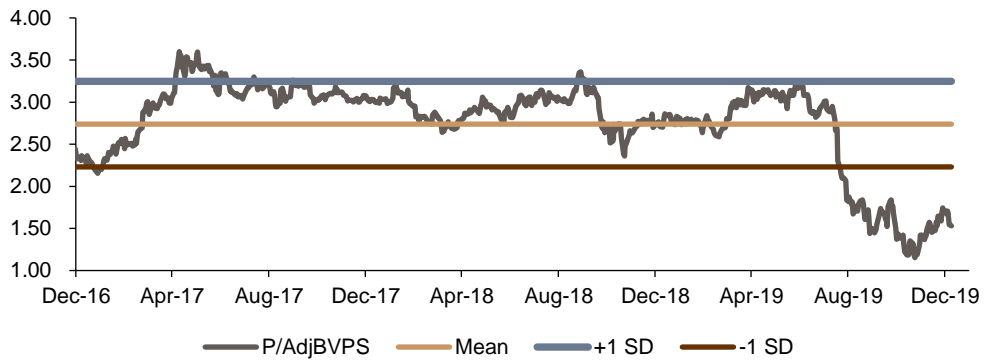
Source: Company, Emkay Research

**Exhibit 7: We expect bank RoA to normalize gradually as asset-quality pain moderates**



Source: Company, Emkay Research

**Exhibit 8: The stock currently trades at 1.5x – 1 year forward ABV**

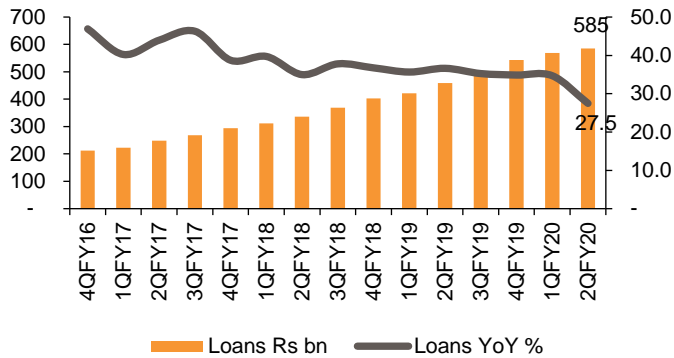


Source: Company, Emkay Research

### Credit growth set to moderate as stress recognition takes precedence

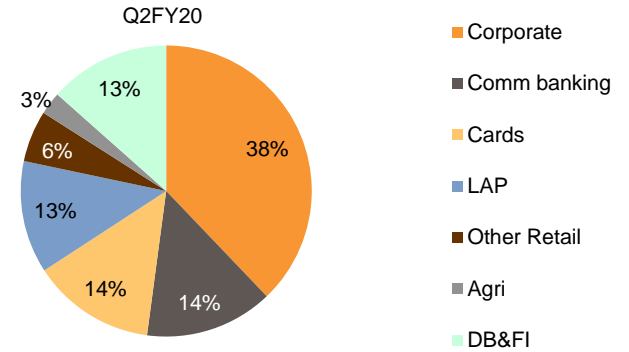
Amid an industry-wide slowdown and the bank's guidance due to NPA recognition, its Corporate/SME growth had fallen sharply to 18%/0% in Q2FY20. However, RBL's overall credit growth was still healthy at 27% yoy, mainly driven by the continued traction in its retail book, in turn led by cards/LAP. However, we expect loan growth to moderate to 21% yoy, led by continued moderation in its corporate/SME book and some risk-averseness slipping even into unsecured retail growth as well amid rising systemic stress.

**Exhibit 9: Growth moderates dragged by corporate/SME**



Source: Company, Emkay Research

**Exhibit 10: Cards/LAP book contribute 27% of loans**

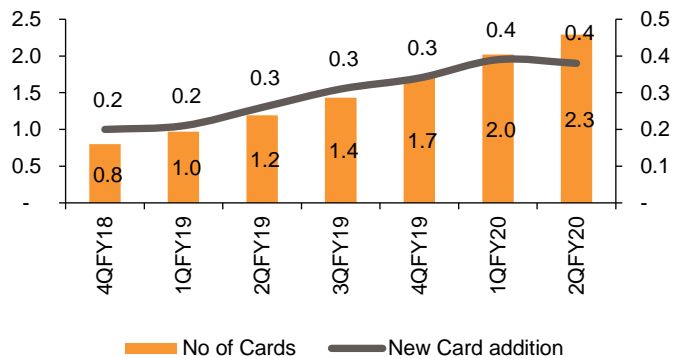


Source: Company, Emkay Research

### Credit card RoA can improve gradually as business gains scale and vintage

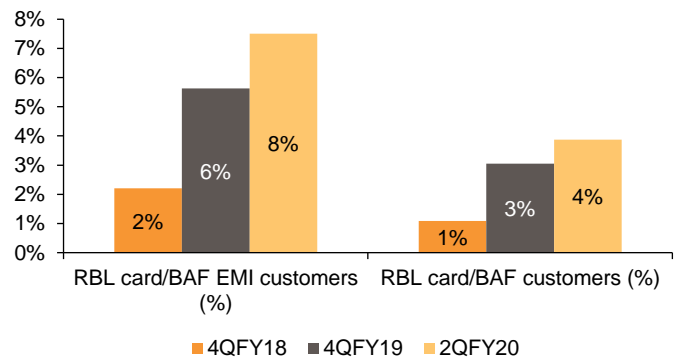
Over the years, the bank has built a strong card base (2.3mn incl. 1.5mn BAF), growing at 43% yoy to Rs80bn with a 13.7% portfolio share. The bank believes that there are nearly 37mn BAF customers including 20mn EMI Cards (RBL card penetration – only 4%), which are the potential target for RBL cards, which will not only provide enough growth for RBL but also for another player. The bank is confident of adding 1mn cards every year, mainly led by accelerated onboarding of BAF customers, which will help it build scale. As of now, the bank's overall credit card portfolio mix is – 75% (Salaried) and 25% (Self Employed) with sub-industry delinquency rates.

**Exhibit 11: New card addition has moderated a bit, but bank has now built good scale on cards largely helped by BAF co-branded card**



Source: Company, Emkay Research

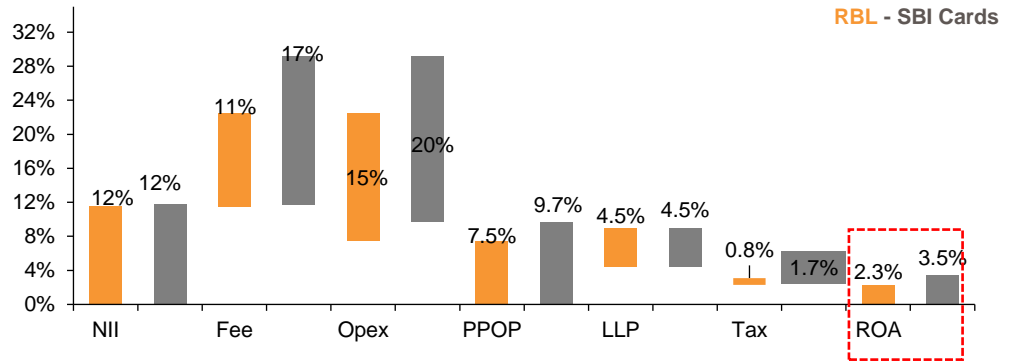
**Exhibit 12: RBL card penetration in BAF customers, including in EMI customers is significantly low leaving ample scope for RBL as well as another potential play to grow**



Source: Company, Emkay Research

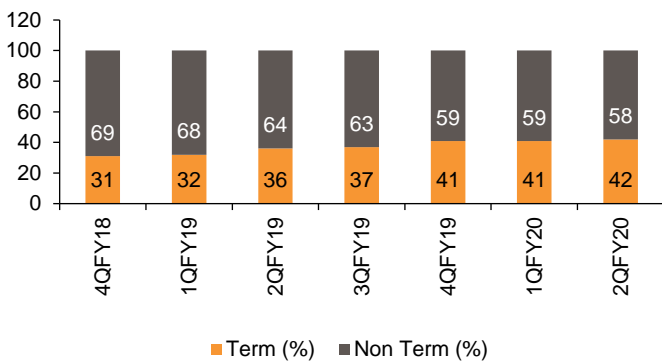
The bank's credit card RoA is relatively lower (2-2.3%) than peers (3.5-6%), primarily due to lower revenues including fees, higher opex and LLP. RBL has blended yield of 25-26% p.a. with nearly 8-18.5% p.a. on TL and 40-42% p.a. on revolve portfolio. Although the revolve rate has remained flat, the bank is focusing on increasing the share of interest-earning TL and also on the other hand on increasing spends, which in turn increases the pool for revolves. Although the cost of acquisition for co-branded BAF cards are lower, the bank has to make sourcing/collection payout to BAF apart from some fee share on spends. Despite the bank's lower NPA ratio, it maintains strict w-off policy above 90 days and thus carries higher LLP. The bank believes that its card RoA can potentially inch up to 4% over next 2-3 years, led by higher revenues and moderation in opex/LLP as it gains scale/vintage.

**Exhibit 13: The bank's card RoA is lower due to lower fees (partly shared with BAF), higher cost-income ratio and elevated LLP**



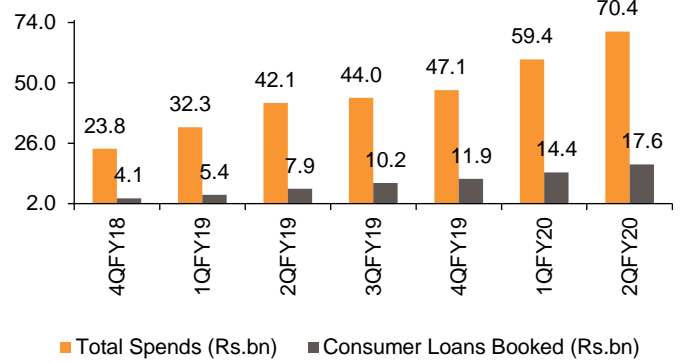
Source: Company, Emkay Research

**Exhibit 14: Share of interest-earning term loans is on rise for the bank**



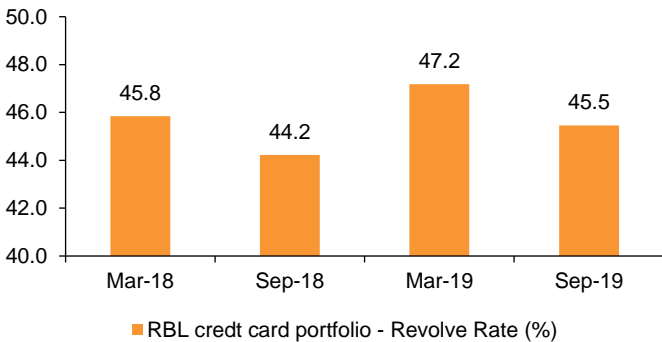
Source: Company, Emkay Research

**Exhibit 15: Conversion of spends in to Consumer loans provides stability to portfolio, better fees and interest revenue**



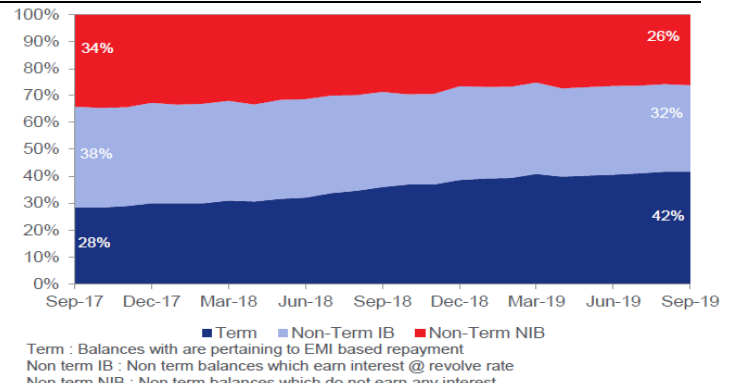
Source: Company, Emkay Research

**Exhibit 16: Card revolve rate has been stable at 44-46%; revolves is a key source of interest earning for the bank as it carries higher interest rate**



Source: Company, Emkay Research

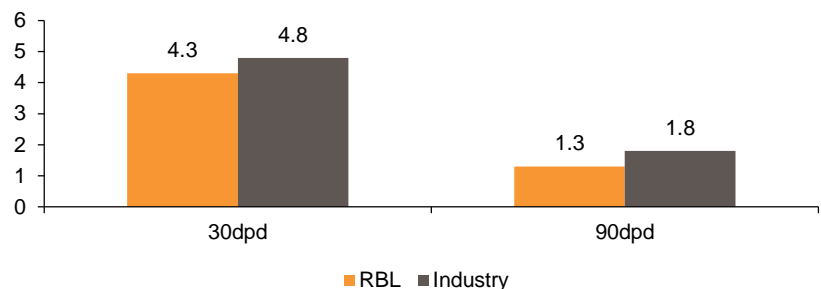
**Exhibit 17: RBL has been strategizing on growing term balances from non-revolving customers to drive revenue from safer customers**



Source: Company, Emkay Research

**Exhibit 18: RBL has lower delinquencies vs. industry, mainly due to lower NPAs in BAF portfolio**

**Delinquency Rates in Credit card Business (%) - RBL vs Industry**

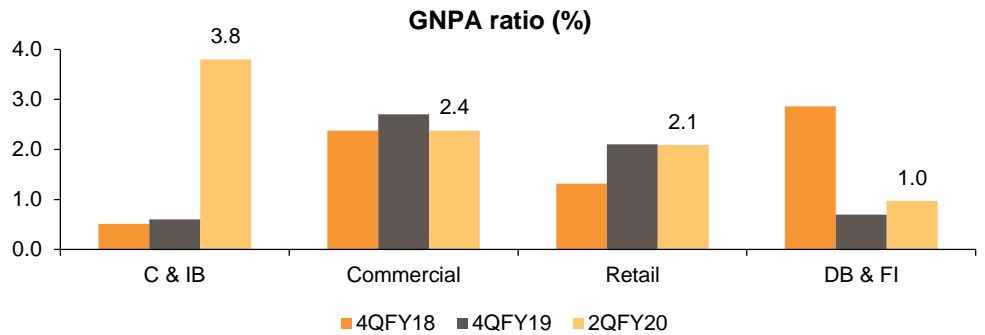


Source: Company, Emkay Research

**Near-term asset quality pain inevitable; rising systemic corporate stress remains a risk**

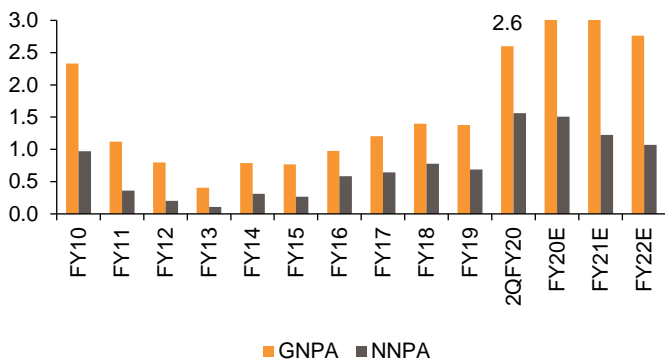
RBL has begun the recognition of corporate stress since Q1, leading to a rise in the GNPA ratio to 2.6% (up 140bps qoq). The bank's current corporate stress pool stands at Rs10bn (1.7% of loans including CCD/media group), where the bank expects some resolution and thus the incremental stress flow could be limited. Given the rising corporate stress, we conservatively factor in higher NPAs, while the bank's stated plan to improve its current PCR of 41% gradually to 60% will keep LLP elevated, dragging down its RoA to 0.9% in FY20E.

**Exhibit 19: C&IB shows signs of stress with GNPA ratio jumping-up to 3.8% in Q1 due to the recognition from stress pool**



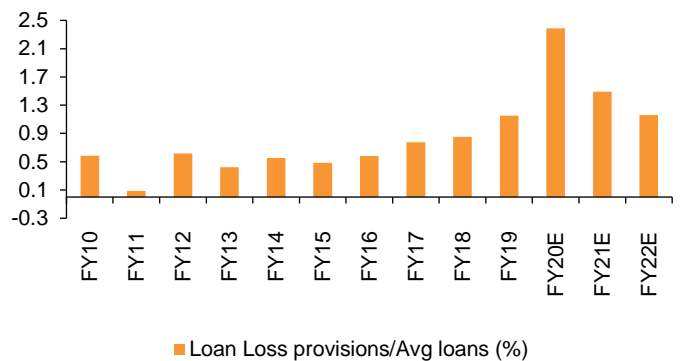
Source: Company, Emkay Research

**Exhibit 20: We expect GNPA ratio to remain elevated...**



Source: Company, Emkay Research

**Exhibit 21: Higher NPAs and bank's stated stance to improve PCR to 60% will call for elevated LLP**

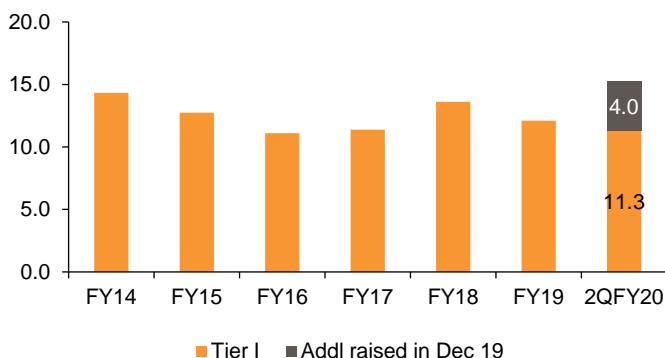


Source: Company, Emkay Research

**Recent capital raise to improve shock absorption capacity**

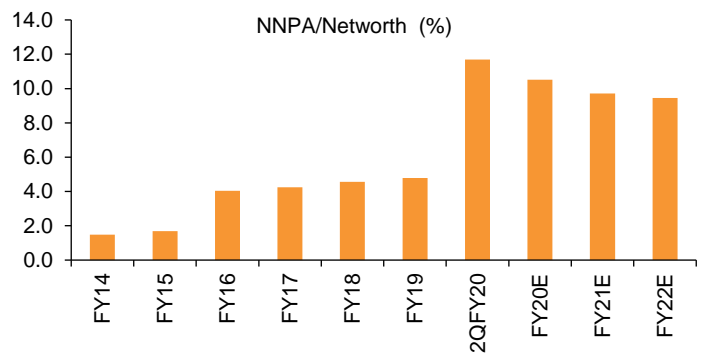
The bank has recently raised Rs27bn, leading to an improvement in Tier 1 by ~400bps to 15.3%, which is likely to provide some breather amid the bank's planned accelerated NPA recognition from its announced stress pool.

**Exhibit 22: Recent capital raise of Rs27bn should boost bank's Tier I by ~400bps**



Source: Company, Emkay Research

**Exhibit 23: Recent capital raise has improved the bank's shock absorption capacity**

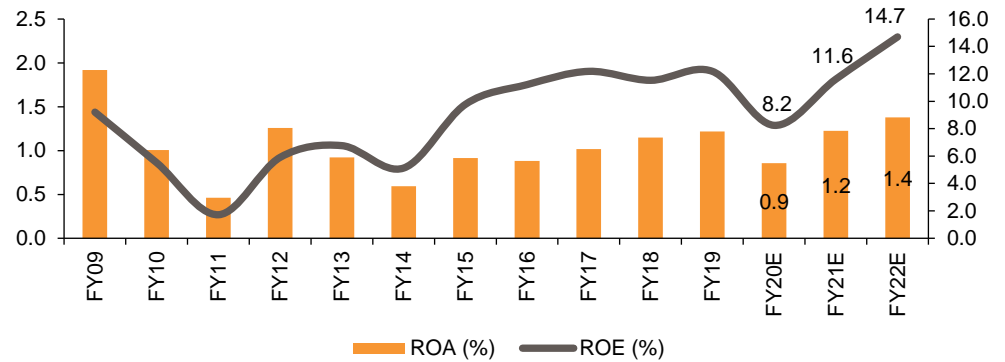


Source: Company, Emkay Research

## RoA to dip in FY20 due to accelerated NPA formation; normalization may begin in FY21E

RBL Bank has built a high-growth/margin bank with strong fee support from its cards business tie-up with Bajaj Finance leading to strong RoA movement until FY19. However, the corporate asset-quality stress is likely to result in higher NPA formation/LLP, which is likely to derail the bank's strong RoA trajectory, leading to sub-1% RoA in FY20E. However, we believe that RoA normalization will begin from Q1FY21E and estimate RoA/RoE to improve to 1.2%/12% in FY21E and 1.4/15% in FY22E.

**Exhibit 24: We expect bank RoA to normalize gradually as asset quality pain moderates**



Source: Emkay Research

**Exhibit 25: Revision in earnings estimates**

Y/E Mar (Rs mn)	FY20E			FY21E			FY22E		
	Earlier	Revised	% change	Earlier	Revised	% change	Earlier	Revised	% change
Net income	53,300	53,380	0.2%	64,583	64,643	0.1%	80,295	80,264	0.0%
PPOP	26,206	26,092	-0.4%	29,932	29,721	-0.7%	37,142	36,753	-1.0%
PAT	8,322	7,564	-9.1%	13,377	13,174	-1.5%	18,901	18,634	-1.4%
EPS (Rs)	18.4	16.2	-11.8%	26.6	26.1	-2.0%	35.8	36.9	3.0%
BV (Rs)	219.9	232.0	5.5%	254.2	235.2	-7.5%	272.6	266.7	-2.2%

Source: Company, Emkay Research

We have cut our earnings estimates for FY20/FY21/22E by 9.1%/1.5%/1.4%, factoring in higher LLP.

**Exhibit 26: Key assumptions**

Key Assumptions	FY19	FY20E	FY21E	FY22E
Loan Growth %	34.9	20.9	27.7	30.1
Deposit Growth %	33.0	22.5	27.4	29.4
NIM %	3.7	4.1	4.1	4.0
GNPA %	1.4	3.1	3.0	2.8
Credit Cost %	1.2	2.4	1.5	1.2

Source: Company, Emkay Research

**Key Financials (Standalone)****Income Statement**

Y/E Mar (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
<b>Net interest income</b>	<b>17,663</b>	<b>25,395</b>	<b>34,895</b>	<b>41,700</b>	<b>51,577</b>
<b>Other income</b>	<b>10,682</b>	<b>14,424</b>	<b>18,485</b>	<b>22,943</b>	<b>28,687</b>
Fee income	7,226	11,656	15,153	18,941	23,676
<b>Net income</b>	<b>28,345</b>	<b>39,818</b>	<b>53,380</b>	<b>64,643</b>	<b>80,264</b>
Operating expenses	15,034	20,420	27,288	34,922	43,511
<b>Pre provision profit</b>	<b>13,311</b>	<b>19,398</b>	<b>26,092</b>	<b>29,721</b>	<b>36,753</b>
<b>PPP excl treasury</b>	<b>11,645</b>	<b>18,615</b>	<b>25,152</b>	<b>28,592</b>	<b>35,399</b>
Provisions	3,178	6,407	15,201	12,115	11,852
<b>Profit before tax</b>	<b>10,133</b>	<b>12,992</b>	<b>10,891</b>	<b>17,606</b>	<b>24,901</b>
Tax	3,782	4,322	3,327	4,431	6,268
Tax rate	37	33	31	25	25
<b>Profit after tax</b>	<b>6,351</b>	<b>8,670</b>	<b>7,564</b>	<b>13,174</b>	<b>18,634</b>

**Balance Sheet**

Y/E Year End (Rs mn)	FY18	FY19	FY20E	FY21E	FY22E
Equity	4,197	4,267	5,052	5,052	5,052
Reserves	62,643	71,201	103,057	113,799	129,697
<b>Net worth</b>	<b>66,840</b>	<b>75,468</b>	<b>108,110</b>	<b>118,852</b>	<b>134,749</b>
Deposits	439,023	583,944	715,260	911,055	1,178,709
Borrowings	85,314	111,021	114,351	120,069	132,076
<b>Total liabilities</b>	<b>618,508</b>	<b>803,588</b>	<b>960,208</b>	<b>1,190,859</b>	<b>1,510,407</b>
Cash and bank	25,893	48,395	50,815	53,355	56,023
Investments	154,475	168,404	191,241	223,098	267,652
Loans	402,678	543,082	656,502	838,626	1,091,227
Others	15,170	22,056	28,827	36,383	41,014
<b>Total assets</b>	<b>618,508</b>	<b>803,588</b>	<b>960,208</b>	<b>1,190,859</b>	<b>1,510,407</b>

**Key Ratios (%)**

Y/E Year End	FY18	FY19	FY20E	FY21E	FY22E
NIM	3.3	3.7	4.1	4.1	4.0
Non-ll/avg assets	1.9	2.0	2.1	2.1	2.1
Fee income/avg assets	1.3	1.6	1.7	1.8	1.8
Opex/avg assets	2.7	2.9	3.1	3.2	3.2
Provisions/avg assets	0.6	0.9	1.7	1.1	0.9
PBT/avg assets	1.8	1.8	1.2	1.6	1.8
Tax/avg assets	0.7	0.6	0.4	0.4	0.5
RoA	1.1	1.2	0.9	1.2	1.4
RoAE	11.5	12.2	8.2	11.6	14.7
GNPA (%)	1.4	1.4	3.1	3.0	2.8
NNPA (%)	0.8	0.7	1.5	1.2	1.1

Per Share Data (Rs)	FY18	FY19	FY20E	FY21E	FY22E
EPS	16.0	20.5	16.2	26.1	36.9
BVPS	168.2	178.3	232.0	235.2	266.7
ABVPS	163.0	172.5	216.1	220.0	249.4
DPS	2.2	2.7	3.5	4.0	4.5

Valuations (x)	FY18	FY19	FY20E	FY21E	FY22E
PER	21.0	16.4	20.6	12.8	9.1
P/BV	2.1	1.9	1.6	1.5	1.3
P/ABV	2.1	1.9	1.6	1.5	1.3
P/PPOP	10.6	7.4	6.5	5.7	4.6
Dividend Yield (%)	0.7	0.8	1.0	1.2	1.3

Source: Company, Emkay Research



<b>Growth (%)</b>	<b>FY18</b>	<b>FY19</b>	<b>FY20E</b>	<b>FY21E</b>	<b>FY22E</b>
NII	44.6	43.8	37.4	19.5	23.7
PPOP	44.6	45.7	34.5	13.9	23.7
PAT	42.4	36.5	(12.7)	74.2	41.4
Loans	36.7	34.9	20.9	27.7	30.1

<b>Quarterly (Rs mn)</b>	<b>Q2FY19</b>	<b>Q3FY19</b>	<b>Q4FY19</b>	<b>Q1FY20</b>	<b>Q2FY20</b>
NII	5,930	6,551	7,387	8,173	8,687
NIM(%)	4.1	4.1	4.2	4.3	4.4
PPOP	4,491	4,985	5,600	6,188	6,358
PAT	2,045	2,252	2,472	2,671	543
EPS (Rs)	4.75	5.23	5.74	6.20	1.26

Source: Company, Emkay Research

<b>Shareholding Pattern (%)</b>	<b>Sep-18</b>	<b>Dec-18</b>	<b>Mar-19</b>	<b>Jun-19</b>	<b>Sep-19</b>
Promoters	-	-	-	-	-
FIIIs	14.2	15.9	18.8	18.8	18.6
DIIIs	20.7	21.1	21.3	21.6	22.2
Public and Others	65.1	63.0	59.9	59.6	59.2

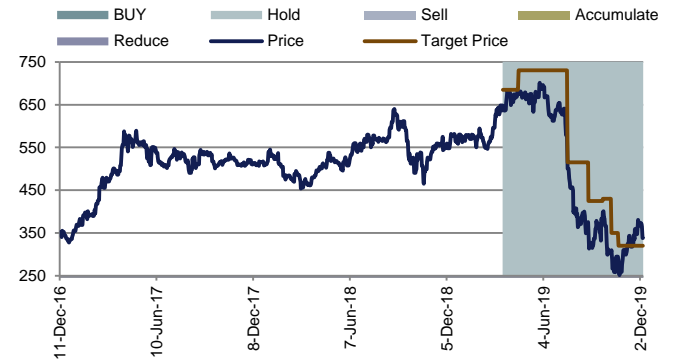
Source: Capitaline

## RECOMMENDATION HISTORY TABLE

Date	Closing Price	TP	Period (months)	Rating	Analyst
22-Oct-19	287	320	12m	Hold	Anand Dama
9-Oct-19	310	350	12m	Hold	Anand Dama
23-Sep-19	398	430	12m	Hold	Anand Dama
27-Aug-19	357	425	12m	Hold	Anand Dama
19-Jul-19	500	515	12m	Hold	Anand Dama
18-Apr-19	675	730	12m	Hold	Anand Dama
20-Mar-19	645	685	12m	Hold	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY CHART



Source: Bloomberg, Company, Emkay Research

## Emkay Alpha Portfolio – BFSI-Banks



### Analyst: Anand Dama

#### Contact Details

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+91 22 6624 2480

#### Sector

Banks

#### Analyst bio

Anand Dama is a CA, CPM (ICFAI) with total 12 years of research experience, in addition to 3 years in the finance/rating industry. His team currently covers 21 banks and 15 stocks in the NBFC/Insurance space.

### EAP sector portfolio

Company Name	BSE200 Weight	EAP Weight	OW/UW (%)	OW/UW (bps)	EAP Weight (Normalised)
<b>BFSI-Banks</b>	<b>24.55</b>	<b>24.55</b>	<b>0.0%</b>	<b>0</b>	<b>100.00</b>
Axis Bank	2.68	3.07	14%	39	12.50
AU Small Finance Bank	0.07	0.00	-100%	-7	0.00
Bandhan Bank	0.26	0.54	104%	28	2.20
Bank of Baroda	0.20	0.00	-100%	-20	0.00
Canara Bank	0.07	0.00	-100%	-7	0.00
City Union Bank	0.25	0.49	94%	24	2.00
DCB Bank	0.00	0.00	NA	0	0.00
Equitas Holdings	0.00	0.00	NA	0	0.00
Federal Bank	0.28	0.49	75%	21	2.00
HDFC Bank	8.40	8.70	4%	30	35.43
ICICI Bank	5.21	6.87	32%	166	28.00
Indian Bank	0.02	0.00	-100%	-2	0.00
Indusind Bank	1.48	1.48	0%	0	6.03
Karur Vysya Bank	0.00	0.00	NA	0	0.00
Kotak Mahindra Bank	2.98	0.86	-71%	-213	3.50
Punjab National Bank	0.11	0.00	-100%	-11	0.00
RBL Bank	0.21	0.00	-100%	-21	0.00
State Bank of India	2.05	2.05	0%	0	8.34
Ujjivan Financial Services	0.00	0.00	NA	0	0.00
Union Bank of India	0.04	0.00	-100%	-4	0.00
Yes Bank	0.23	0.00	-100%	-23	0.00
<b>Cash</b>	<b>0.00</b>	<b>0.00</b>	<b>NA</b>	<b>0</b>	<b>0.00</b>

Source: Emkay Research

\* Not under coverage: Equal Weight

■ High Conviction/Strong Over Weight ■ High Conviction/Strong Under Weight

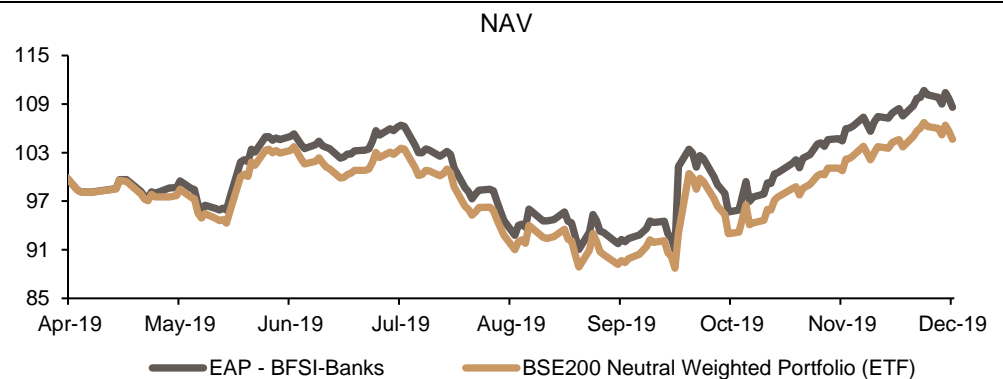
### Sector portfolio NAV

	Base			Latest
	01-Apr-19	06-Sep-19	06-Nov-19	06-Dec-19
EAP - BFSI-Banks	100.0	92.4	106.0	108.6
BSE200 Neutral Weighted Portfolio (ETF)	100.0	89.9	102.2	104.6

\*Performance measurement base date 1<sup>st</sup> April 2019

Source: Emkay Research

### NAV chart



Source: Emkay Research

Please see our model portfolio (Emkay Alpha Portfolio): [SMID](#)

Please see our model portfolio (Emkay Alpha Portfolio): [Nifty](#)

## Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

Completed Date: 10 Dec 2019 01:13:08 (SGT)

Dissemination Date: 10 Dec 2019 01:14:08 (SGT)

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