

RBL Bank

Near-term pain inevitable

Significant treasury gains and strong NIMs buoyed RBK's 1Q earnings. While QoQ deposit growth was healthy, deposit granularity remains an area of concern. Moratorium trends in the credit card and micro-credit portfolios, where LGDs are high, are concerning. These segments could contribute disproportionately to slippages and LLPs. Provisions are likely to remain elevated in the near term, denting return ratios. This underpins our REDUCE rating. Our price target of Rs 148 remains unchanged.

- **1QFY21 highlights:** NII grew 27.4%/2% YoY/QoQ, and was 10% ahead of our estimates. PPOP grew 11.5% YoY but dipped 9.8% QoQ, led by a sharp 33.4% QoQ fall in other income, and was 3.9% below our estimates.
- **Deposits:** After the significant outflow seen in 4Q, RBK witnessed a 6.8% QoQ growth in deposits. It was led by a 24.2% QoQ growth in SA and a 6% rise in TDs. Average deposits from retail and small business customers were 31% of deposits vs. 29.3% QoQ. Granular deposit traction remains an area of concern and progress on this front will be watched.
- **Moratorium:** 13.7% of the bank's portfolio was under moratorium as of June (vs. 33% in April). The credit card and micro-credit portfolios have seen a reduction in the moratorium to 22% and ~35%. The credit card/micro-credit moratorium remains relatively sticky/elevated. These segments, along with the corporate portfolio (rated BB and below), are likely to keep slippages (4.3%) elevated in FY21E.
- **Non-tax provisions** at Rs 5bn, dipped 18.6% QoQ but remained elevated (2.3xYoY). COVID-19 related provisions were Rs 2.4bn, (total COVID-19 provisions stood were Rs 3.5bn i.e. 62bps of loans). Commentary indicated that a majority of COVID-19 related provisions pertained to the credit card portfolio and that the management expects a 70-80% increase in credit costs for this book (5% at present). We expect LLPs of ~2.8% over FY21-22E.
- Surprisingly, **NIMs** were flat QoQ at ~4.85%. CoF fell 30bps and yield increased 50bps to 13% (driven by 140bps rise in retail yields). We believe that current NIMs are unsustainable and expect a 45bps fall over FY21-22E.

Financial summary

YE Mar (Rs mn)	1Q FY21	1Q FY20	YoY (%)	4Q FY20	QoQ (%)	FY19	FY20	FY21E	FY22E
NII	10,413	8,173	27.4%	10,210	2.0%	25,395	36,296	36,780	38,867
PPOP	6,897	6,188	11.5%	7,648	-9.8%	19,398	27,516	25,842	26,787
PAT	1,412	2,671	-47.1%	1,144	23.5%	8,670	5,057	4,846	8,204
EPS (Rs)	2.8	6.2	-55.5%	2.2	23.5%	20.3	9.9	9.5	16.1
ROAE (%)						12.2	5.6	4.5	7.2
ROAA (%)						1.22	0.60	0.53	0.82
ABVPS (Rs)						168.1	184.6	195.7	214.6
P/ABV (x)						1.08	0.98	0.93	0.85
P/E (x)						9.0	18.3	19.1	11.3

Change in estimates

Rs mn	FY21E			FY22E		
	Old	New	Change	Old	New	Change
Loans	6,18,274	6,21,190	0.5%	685,725	6,91,285	0.8%
NIM (%)	4.5	4.5	1 bps	4.4	4.3	-3 bps
NII	36,191	36,780	1.6%	38,000	38,867	2.3%
PPOP	25,342	25,842	2.0%	26,712	26,787	0.3%
PAT	4,868	4,846	-0.4%	8,229	8,204	-0.3%
ABVPS (Rs)	195.7	195.7	0.0%	214.6	214.6	0.0%

Source: Bank, HSIE Research

REDUCE

CMP (as on 29 July 2020)	Rs 177
Target Price	Rs 148
NIFTY	11,203

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	Rs 148	Rs 148
EPS %	FY21E	FY22E
	-0.4%	-0.3%

KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	509
MCap (Rs bn) / (\$ mn)	90/1,203
6m avg traded value (Rs mn)	5,242
52 Week high / low	Rs 465/102

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	40.4	(47.3)	(60.7)
Relative (%)	24.0	(39.7)	(61.7)

SHAREHOLDING PATTERN (%)

	Mar-20	Jun-20
Promoters	-	-
FIs & Local MFs	28.9	20.9
FPIs	41.8	44.6
Public & Others	29.3	34.5
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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