

BSE Code: 540065
NSE Code: RBLBANK
Reuters Code:
RATB.NS
Bloomberg Code: RBK:IN
Strong performance across all parameters to continue...

RBL Bank Ltd. has emerged as one of the fastest growing private sector banks with a network of 265 branches and 388 ATMs.

Investment Rationale
🌀 Focused approach to support robust growth momentum:

RBL Bank has adopted both organic as well as inorganic strategy to sustain strong growth momentum over the last five years. Organically, the bank has been focusing on selective segments to drive profitable growth by catering to the funding and working capital needs of large and mid-sized corporates. To push its retail business, it acquired the credit card & mortgage business of The Royal Bank of Scotland (RBS) and has been expanding the same along with other new retail products. As a result, the bank reported scorching growth of 47% CAGR in earnings, 39% CAGR in deposits and 45% CAGR in advances over FY11-FY16. We expect the bank to continue to increase its market share with a robust CAGR of 35% in advances over FY18-20E.

🌀 Asset quality remains well under control:

RBL bank's asset quality remained well under control and improved sequentially on the back of controlled slippages coupled with higher upgrades. Hence, Gross non-performing asset (NPA) ratio remained stable at 1.40% in Q1FY19 and Net NPA ratio declined by 3 bps QoQ to 0.75%. Total stressed assets (including Gross NPA) increased marginally by 2 bps QoQ to 1.5% of the total loan book. Notably, the bank has little exposure to large NPA accounts including the IBC/NCLT cases etc. We expect asset quality to continue to show broadly stable trend (Gross/Net NPA ratios of 1.5%/0.6% by FY20E) given the bank's strong risk management practices and an improving macro environment.

🌀 Improving operating efficiencies to drive RoE:

RBL bank reported remarkable improvement in its return ratios over the last four years driven by robust business growth, improving productivity, increasing share of non-interest income and impeccable asset quality. Thus, the bank's RoE and RoA improved to 11.5% and 1.1% in FY18 from 5.1% and 0.6% in FY14, respectively. We expect the bank to continue to show an aggressive growth in the bank's balance sheet as well as earnings over FY18-20E and expect net profit to increase at a CAGR of 34% over FY18-20E. It will help the bank's return ratios to improve and we project RoE of 14.4% and RoA of 1.3% by FY20E.

Valuation:

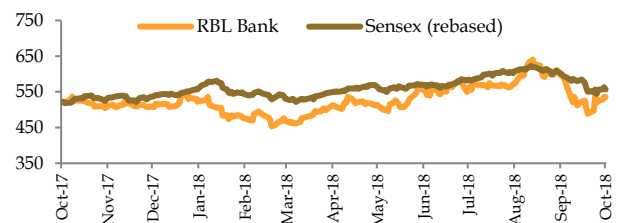
RBL Bank has continued to witness strong business momentum and we expect this traction to continue for the next few years. We project business to grow at a CAGR of 32% over FY18-20E with gradual rise in profitability at RBL Bank (14.4% of RoE and 1.3% of RoA by FY20E). Besides, the bank is well capitalized with CAR of 15.3% and Tier I ratio of 13.6%. Thus, we don't expect any further capital dilution for the next two years Overall, higher earnings growth, highly capable management, steady asset quality, improving business mix and above industry average loan growth will help the bank to sustain premium valuations over new generation private sector banks. Hence, we continue to maintain our Accumulate rating on the stock with target price of Rs586 (P/ABV of 3.0x for FY20E).

Market Data

Rating	ACCUMULATE
CMP (Rs.)	535
Target (Rs.)	586
Potential Upside	10%
Duration	Long Term
Face Value (Rs.)	10
52 week H/L (Rs.)	652/443
Adj. all time High (Rs.)	652
Decline from 52WH (%)	17.9
Rise from 52WL (%)	20.9
Beta	1.2
Mkt. Cap (Rs.Cr)	22,732

Fiscal Year Ended

Y/E	FY17	FY18	FY19E	FY20E
Net Int. Income	1,221	1,766	2,349	3,074
Pre Pro Profit	920	1,331	1,753	2,289
Net Profit	446	635	856	1,148
EPS	11.8	15.8	20.4	27.4
P/E	42.5	33.9	26.3	19.6
P/BV	4.6	3.4	3.0	2.6
P/ABV	4.8	3.5	3.2	2.8
RoE (%)	12.2	11.5	12.1	14.4
RoA (%)	1.0	1.1	1.2	1.3

One year Price Chart

Shareholding Pattern

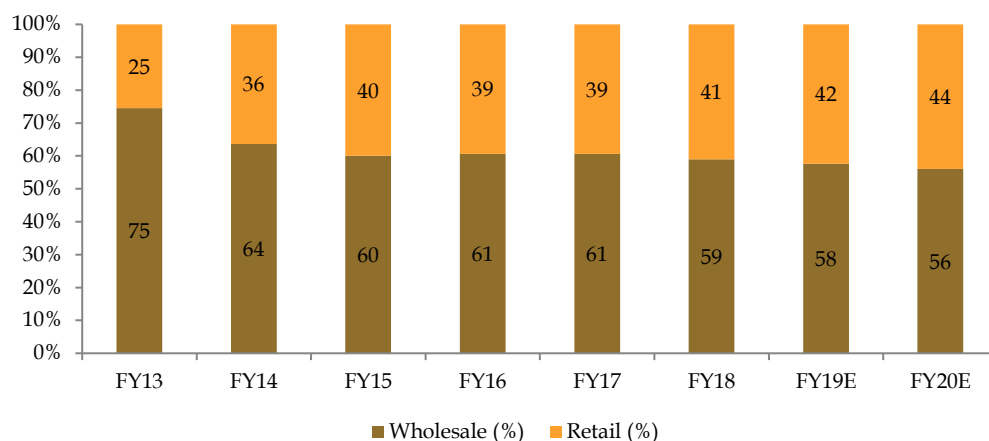
	Sep-18	Jun-18	Chg.
Promoters	0.0	0.0	0.0
FII's	14.2	14.4	(0.2)
MFs/Insti	24.1	21.0	3.1
Public	61.8	64.6	(2.9)
Others	-	-	-

RBL Bank Ltd: Business overview

RBL Bank Ltd, the erstwhile Ratnakar Bank Ltd, has a long history in India with operations since 1943 when the bank was incorporated as a small regional bank in Maharashtra with two branches in Kolhapur and Sangli. The bank has been in existence for the last 73 years and it has successfully transformed itself from a traditional bank to a new age bank over the last six years. In June 2010, Ratnakar bank appointed Mr. Vishwvir Ahuja as managing director and CEO to lead the bank's transformation.

In the past five years, the bank has focused on building a comprehensive product suite, improving risk management, upgrading technology by implementing a new-age core banking system platform and expanding its distribution network to 266 branches and 369 ATMs. As part of its growth strategy, the bank acquired certain Indian businesses of RBS in FY14, including RBS's business banking and its credit card and mortgage portfolios. It provides a wide range of customized banking products and services to large corporations, SMEs, agricultural customers, retail customers and low income customers.

Business mix shifting in favour of retail segment



Source: Company, In-house research

Quarterly Financials (Standalone)

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Interest Income	1,364	1,043	30.8	1,223	11.6
Interest Expense	812	664	22.1	722	12.4
Net Interest Income	553	378	46.1	500	10.4
Non-Interest Income	326	257	26.9	312	4.5
Total Net Income	879	635	38.3	812	8.2
Operating Expenses	446	324	37.8	429	4.0
Employee Cost	153	133	15.0	131	17.2
Other Operating Exp.	293	191	53.7	299	(1.8)
Total Income	1,690	1,300	30.0	1,535	10.1
Total Expenditure	1,258	988	27.3	1,152	9.2
Pre-Provisioning profit	432	311	38.8	383	12.8
Provisions	140	94	48.6	113	24.4
Profit Before Tax	292	217	34.6	270	8.0
Tax	102	76	34.3	92	10.6
Net Profit	190	141	34.8	178	6.7
EPS - Diluted (Rs)	4.4	3.5	24.6	4.1	6.5

Business Performance (Rs cr)

(Rs cr)	Q1FY19	Q1FY18	YoY Growth %	Q4FY18	QoQ Growth %
Advances	42,198	31,107	35.7	40,268	4.8
Deposits	44,950	35,428	26.9	43,902	2.4
Business	87,148	66,535	31.0	84,170	3.5
Gross NPA	596	458	30.2	567	5.2
Net NPA	316	250	26.1	313	1.0

Source: Company

Strong growth momentum in loan book to continue

RBL Bank continued to witness strong traction in its loan book as it grew by 36% YoY in Q1FY19, fueled by 37% YoY growth in non-wholesale book and 35% YoY rise in wholesale portfolio. Non-wholesale loan book was mainly driven by strong 61% y-o-y growth in retail assets and MFI & MSME segment (39% YoY), partially offset by decline (-33% YoY) in agri portfolio. As a result, the share of retail loans increased by 41 bps YoY to ~41% of total loans. On liabilities front, deposits grew by healthy pace of 27% YoY mainly driven by robust CASA growth of 41% YoY. Thus, CASA ratio improved by 240 bps YoY to 24.5%. Going forward, we expect advances to grow at a CAGR of 35% over FY18-20E led by robust growth in the retail advances.

Operational performance intact

Net interest income (NII) increased by 46% YoY in Q1FY19 on the back of strong growth in loan book and 48 bps YoY expansion in net interest margin (NIM) to 3.9%. Increase in NIM was supported by robust growth in low cost current account deposits (64% YoY). However, on yearly basis, we expect NIM to remain stable at FY18 level of 3.6% over FY18-20E. Though trading income of the bank declined by 52% YoY, non-interest income increased by 27% YoY mainly driven by 59% YoY growth in core fee income (89% of total other income). Pre-provisioning profit and net profit increased by 39% and 35% YoY, respectively. Going forward, we expect net profit to increase at a CAGR of 34% over FY18-20E led by improving operating efficiency coupled with stable margin.

Asset quality remains well under control

RBL bank's asset quality remained well under control and improved sequentially on the back of controlled slippages coupled with higher upgrades. Hence, Gross non-performing asset (NPA) ratio remained stable at 1.40% in Q1FY19 and Net NPA ratio declined by 3 bps QoQ to 0.75%. Total stressed assets (including Gross NPA) increased marginally by 2 bps QoQ to 1.5% of the total loan book. Notably, the bank has little exposure to large NPA accounts including the IBC/NCLT cases etc. We expect asset quality to continue to show broadly stable trend (Gross/Net NPA ratios of 1.5%/0.6% by FY20E) given the bank's strong risk management practices and an improving macro environment.

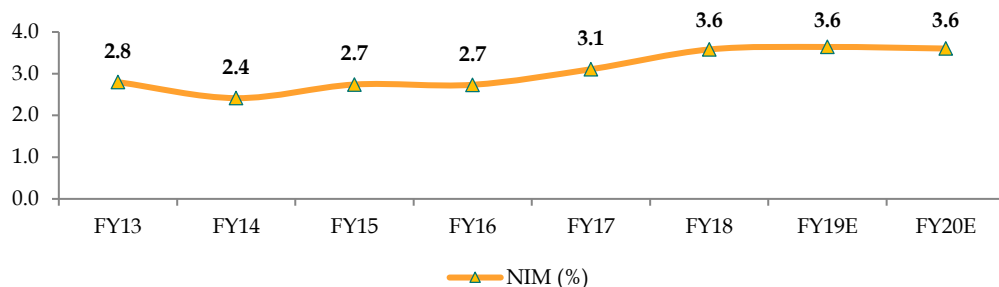
Improving operating efficiencies to drive RoE

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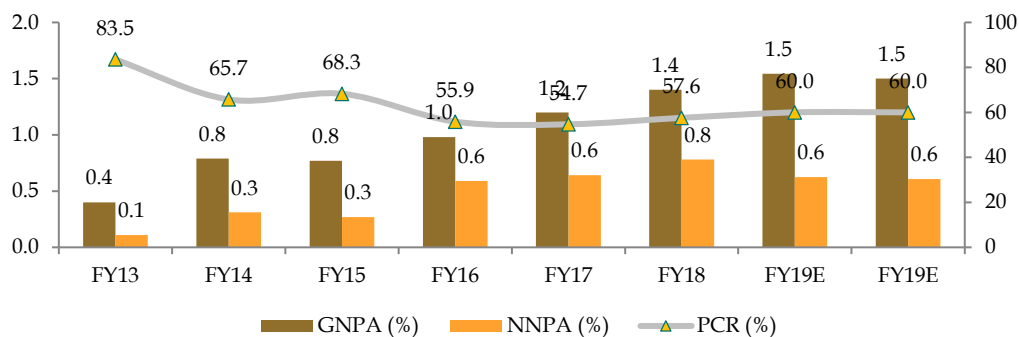
Valuation

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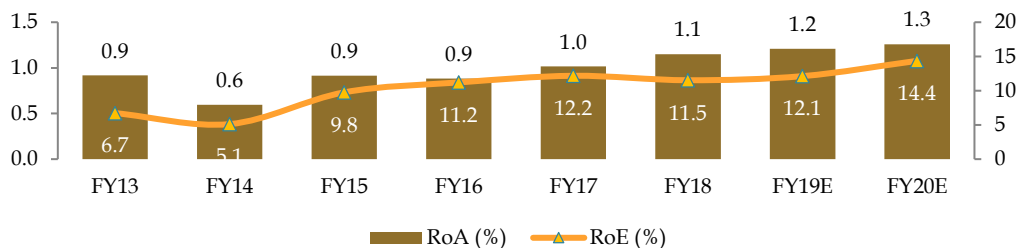
NIM to remain stable at ~3.6% over FY18-20E



Asset quality to remain broadly stable over FY18-20E



Return ratios to improve gradually over FY18-20E



Source: Company, In-house research

Key risks:

- **Loan book not sufficiently seasoned:** Considering RBL Bank's elevated asset portfolio growth over the past three years, it may be too early to draw any conclusions on the bank's asset quality, given the lack of adequate seasoning.
- **Branch concentration risk:** RBL Bank lacks a strong pan-India retail brand as its presence has historically been largely in the state of Maharashtra (38% of total branches as of FY18).

Profit & Loss Account (Standalone)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Interest Income	3,713	4,508	5,967	7,993
Interest Expense	2,492	2,741	3,618	4,919
Net Interest Income	1,221	1,766	2,349	3,074
Non-Interest Income	755	1,068	1,304	1,599
Net Income	1,977	2,834	3,653	4,672
Operating Expenses	1,056	1,503	1,899	2,383
Total Income	4,469	5,576	7,271	9,591
Total Expenditure	3,548	4,245	5,518	7,302
Pre-Provisioning Profit	920	1,331	1,753	2,289
Provisions	239	365	451	542
Profit Before Tax	681	967	1,303	1,747
Tax	235	331	447	599
Net Profit	446	635	856	1,148

Balance Sheet (Standalone)

Y/E (Rs.Cr)	FY17	FY18	FY19E	FY20E
Liabilities				
Capital	375	420	420	420
Reserves & Surplus	3,960	6,264	7,014	8,136
Deposits	34,588	43,902	56,217	72,280
Borrowings	7,980	9,261	13,280	19,499
Other Liabilities & Provisions	1,771	2,003	2,894	4,184
Total Liabilities	48,675	61,851	79,825	104,517
Assets				
Cash & Balances	4,194	4,284	4,955	5,690
Investments	13,482	15,448	19,114	23,852
Advances	29,449	40,268	54,204	73,442
Fixed Assets	259	334	334	334
Other Assets	1,292	1,517	1,218	1,199
Total Assets	48,675	61,851	79,825	104,517

Key Ratios (Standalone)

Y/E	FY17	FY18	FY19E	FY20E
EPS	12.6	15.8	20.4	27.4
DPS	1.8	1.8	2.1	2.4
BV	115.6	159.3	177.1	203.9
ABV	110.5	151.8	169.1	193.3
Valuation (%)				
P/E	42.5	33.9	26.3	19.6
P/BV	4.6	3.4	3.0	2.6
P/ABV	4.8	3.5	3.2	2.8
Div. Yield	0.3	0.3	0.4	0.4
Spreads (%)				
Yield on Advances	10.4	9.8	9.9	10.0
Yield on Investments	7.0	6.9	7.0	7.0
Yield on Funds	8.7	8.4	8.6	8.8
Cost of Funds	6.4	5.7	5.9	6.1
Capital (%)				
CAR	13.7	15.3	13.4	12.0
Tier I	11.4	13.6	11.7	10.3
Tier II	2.3	1.7	1.7	1.7
Asset (%)				
GNPA	1.2	1.4	1.5	1.5
NNPA	0.6	0.8	0.6	0.6
PCR	54.7	57.6	60.0	60.0
Management (%)				
Credit/ Deposit	85.1	91.7	96.4	101.6
Cost/ Income	53.4	53.0	52.0	51.0
CASA	22.0	24.4	26.2	28.3
Earnings (%)				
NIM	3.1	3.6	3.6	3.6
ROE	12.2	11.5	12.1	14.4
ROA	1.0	1.1	1.2	1.3

Rating criteria

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

* To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

* RBL Bank is a large cap bank

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