


 3rd January, 2020

CMP – ₹358/-

View – POSITIVE

Company Background and Business Model

RBL Bank is one of India's fastest growing private sector banks with an expanding presence across the country.

The Bank offers specialized services under six business verticals namely: Corporate & Institutional Banking, Commercial Banking, Branch & Business Banking, Retail Assets, Development Banking and Financial Inclusion, Treasury and Financial Markets Operations.

As of September 30, 2019, it services over 7.32 million customers through a network of 346 Branches, 1,156 business correspondent branches (of which 238 have been classified as banking outlets) and 394 ATMs spread across 23 Indian States and Union Territories.

Important Statistics (₹crs)

M.Cap (Cr)	~17,500
52 Week H/L (₹)	716.40/230.55
NSE Code	RBLBANK
BSE Code	540065

Investment Argument

- **Whats' Priced In?** – RBL bank has seen several negative news flow relating to it's exposure to riskier sectors in past two quarters which has dented the investors confidence in the company. It's market price has seen sharp fall as much as ~50% from 52 week high. RBL Bank gave the street negative surprise post Q1FY20 results stating it is expecting its asset quality to worsen considering the increased stress in the economy & deterioration in the credit environment. It was expecting stress of ₹9-10Bn which got ballooned to ₹18Bn after Q2FY20 results. However, management reiterated that the stress is specific to certain corporates and they don't see any concern in respect of their exposure to the perceived stressed sectors like real estate, construction, infra, renewable energy, etc. The same is being reflected in no case of SMA-1 and SMA-2 in the above mentioned stressed sectors. The stressed assets (₹1,800 Cr) recognised by management is ~3% of total loans which appears to be discounted into current market price considering it entirely translates into NPAs in FY20.

Financials

Particulars	(₹ crs)	
	FY18	FY19
NII	17,663	25,395
Op. Profit	13,311	19,398
PAT	6,351	8,670
Gross NPA (%)	1.40%	1.39%
Net NPA (%)	0.78%	0.69%

Source: Company Filing

RBL Network as on 30th Sep,2019	₹7,799Cr
Potential Loss	₹(1,800)Cr
Capital Raised (QIP+ Preferential Issue)	₹2,701Cr
Adjusted Network	₹8700Cr
RBL Bank Current Mcap	~₹17,500Cr
Adjusted Price to Book	~2.0

- **Advances** –RBL Bank has grown its book at robust pace of ~37% CAGR between FY16-19. The growth was halted to 27% in Q2FY20 considering it intentionally went slow in wholesale book (12% growth YoY) & concentrated towards non-wholesale book which grew 49% YoY. In spite of slowdown in the economy, it is well towards its target of growing the book in the range of 30-35% for its Vision 2020. The growth will be augmented by the recent fund raising.

The bank is tilting its book towards non-wholesale (48%) which earns relatively higher yields & thus helping it to improve its margins. The same is being reflected in the NIM of 4.35% for Q2FY20 despite the interest reversal on NPA. Going forward it should be able to sustain or improve the same considering its more focus on non-wholesale book.

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- **Deposits** – The bank has seen deposit growth of 34% CAGR between FY16-19 in-line with advance growth. It has seen improvement in its CASA ratio which grew to 26.5% for Q2FY20 vs. 24.5% in Q2FY19. It should be able to garner low cost deposit at steady pace considering it offers higher rate of interest (6.75%) in savings account.
- **Capital Raising** - The bank successfully concluded the QIP of ₹2,025cr at the issue price of ₹351 per share. The QIP increases the Bank's Total Capital Adequacy Ratio to 15.3%*, Core Equity Tier I Ratio to 14.3%*, enabling the Bank to remain capitalized well above the regulatory limits.

It has also raised ₹675 Cr by way of preferential allotment to marquee names like East Bridge, FEG Mauritius, Ishana Capital, WF Asian Reconnaissance.

**Post QIP Issuance considering the financial position as at September 30, 2019 (including profits for the H1FY20)*

- **Key Risk** – Loan book seeing more stress other than the management guidance of ₹18Bn will lead to increase in credit cost & hence reduction in earnings over FY20-FY22E period.

Valuations

At CMP of ₹358, risk-reward strategy seems favourable even though it has recently run up from its lows, it is trading at P/ABV of ~2x after recent capital raising. There could be meaningful upside if management guidance on stressed assets comes true & hence we recommend to ACCUMULATE stock in a staggered manner around the current market price and any decline (370 to 320).



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Disclosure of Interest Statement RBL Bank Ltd. as on January 3rd, 2020

Name of the Security	RBL Bank Ltd.
Name of the analyst	Harshil Gandhi
Analysts' ownership of any stock related to the information contained	NIL
Financial Interest	
Analyst :	No
Analyst's Relative : Yes / No	No
Analyst's Associate/Firm : Yes/No	No
Conflict of Interest	No
Receipt of Compensation	No
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