RBL Bank

Rs239.60 - BUY

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India
Financial services

Reuters	RATB.NS
Bloomberg	RBK IN

Priced on 4 January 2021
CNX Nifty @ 14,132.9

12M hi/lo	Rs358.25/105.15
12M price target	Rs330.00
±% potential	+38%
Shares in issue	509.2m
Free float (est.)	100.0%
Market cap	US$2bn
3M ADV	US$53.8m
Foreign s'holding	27.8%

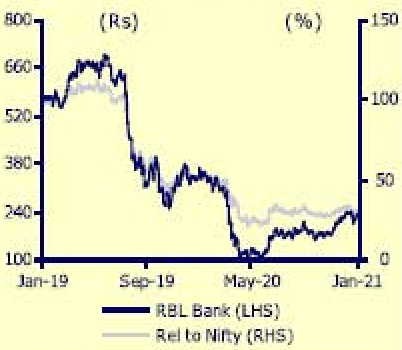
Major shareholders
FPIs 27.8%
DMF+Insurance 15.7%

Blended ESG Score (%)*	
Overall	74.1
Country average	68.6
GEM sector average	68.6

*Click to visit company page on clsa.com for details

Stock performance (%)

	1M	3M	12M
Absolute	1.0	34.7	(33.0)
Relative	(5.2)	8.8	(42.0)
Abs (US$)	2.0	35.0	(34.2)



Source: Bloomberg

Second transformation

Building scale in profitable segments; initiate with BUY

RBL Bank is a mid-sized private bank undergoing its second big transformation, this time from bulky corporate banking exposures to focusing on key retail-asset niches. The credit-cards and microfinance (MFI) businesses have been built in the past three to four years and gained scaled through tie-ups, and will drive the bulk of profitability going forward. The consolidation of corporate book growth is providing the bank an opportunity to work on its liability franchise, and delivery on liabilities will be key to further rerating. We initiate coverage on RBL Bank with a BUY rating and Rs330 target price, which implies 38% upside.

Going through transformation again

The current management led the bank's first transformation with 40x balance sheet growth over FY10-20 and ROAs improving from <0.5% in FY10 to +1% in FY17-19. Since then, the IL&FS crisis led to asset quality issues in RBL's corporate book (leveraged promoter exposures) and the Yes Bank fiasco has exposed RBL's rather bulky liability franchise warranting a transformation. The bank is now focusing on its credit-cards/MFI portfolio for growth to de-risk its corporate book, which is good for profitability, and also using the current growth phase to granulise its liabilities.

Cards and MFI: Scale and size in two profitable segments

RBL acquired RBS India's cards business in FY14 and formed a partnership with Bajaj Finance in FY17, making it the fifth largest credit-card issuer now. For MFI, through partnerships with business correspondents (BCs) and acquiring its largest MFI BC, RBL has built a ~Rs70bn MFI portfolio. The bank has gained scale in these businesses and as Covid credit costs normalise, we expect both segments to deliver +4% ROAs and remain the key growth drivers. The share of cards/MFI has increased from 10% of loans in FY17 to ~30% in FY20. We expect the ratio to rise to 38% by FY23CL.

Consolidation phase a good time to build its liability franchise

RBL's deposits have been bulky/concentrated and post the Yes Bank fiasco, RBL faced a flight of deposits, which has stabilised now. While the bank's Casa saw a 40% Cagr over FY15-20, the high growth has led to a relatively low Casa ratio. The asset-side consolidation provides RBL the much-needed opportunity to build its retail deposit franchise, and lowering its cost of funds will be key to sustained rerating.

Valuations appear reasonable: Initiate with a BUY rating

We expect RBL to deliver 13% ROE by FY23CL as credit costs normalise post Covid, with the ability to leverage up further (~15% Tier-1 in FY23CL). Valuations at 1.0x Sep-22 book appear undemanding and hence we initiate with a BUY rating. Our Mar-22 target of Rs330 is based on the residual income method, implying 1.3x Dec-22 book.

Financials

Year to 31 March	19A	20A	21CL	22CL	23CL
Net profit (Rsm)	8,670	5,937	5,311	12,529	19,007
EPS (Rs)	20.3	11.7	8.9	21.0	31.8
CL/consensus (18) (EPS%)	-	-	87	107	111
EPS growth (% YoY)	34.3	(42.6)	(23.8)	135.9	51.7
ROE (%)	12.2	6.5	4.6	9.5	13.0
CAR - total tier 1	12.1	15.3	17.4	15.9	14.7
PE (x)	11.8	20.5	26.9	11.4	7.5
Adjusted PB (x)	1.4	1.2	1.1	1.0	0.9
Dividend yield (%)	0.9	0.0	0.0	0.8	1.3

Source: www.clsa.com

Initiating coverage