

Target Price ₹ 820
CMP ₹ 595
FY22E P/Adj Book Value 2x

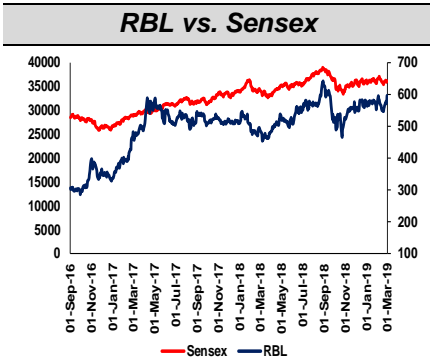
Index Details	
Sensex	36,064
Nifty	10,864
Industry	Banks

We reiterate RBL Bank as a BUY with a Price Target of INR 820 (2.8x P/Adj. BV of FY 22E), representing a growth of 38% over a period of 30 months. Currently, the stock is trading at a CMP of Rs. 595 (2x P/Adj. BV FY22E).

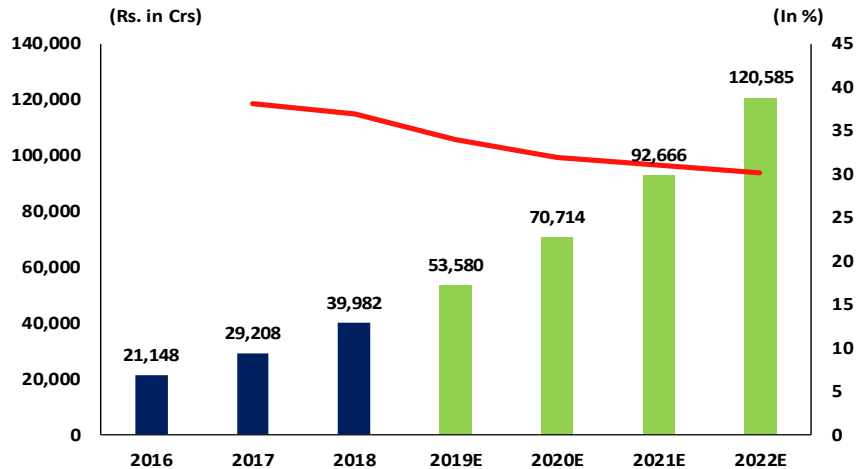
Scrip Details	
MktCap (`cr)	25,335
BVPS (`)	159.2
O/s Shares (Cr)	41.9
AvVol (Lacs)	12.74
52 Week H/L	438.8/652
Div Yield (%)	0.89
FVPS (`)	10.0

We expect the loan book to continue its scorching pace of growth (32% CAGR) and scale to INR 1,20,584 crs by FY22E. This growth is expected to be spearheaded by the high ROA potential credit card lending and the micro finance book. While both these segments are fraught with risk, RBL is relying extensively on data analytics and multi-pronged stratification to mitigate the same. Both these portfolios have a negative co-relation and hence, in our view, the impact on asset quality stands further reduced. In the traditional banking verticals, viz. corporate and retail banking, the product profile continues to follow risk averse prudent lending norms with respect to corporate rating and collateralized offerings for the retail segment.

Shareholding Pattern	
Shareholders	%
Promoters	-
Public	100.0
Total	100.0



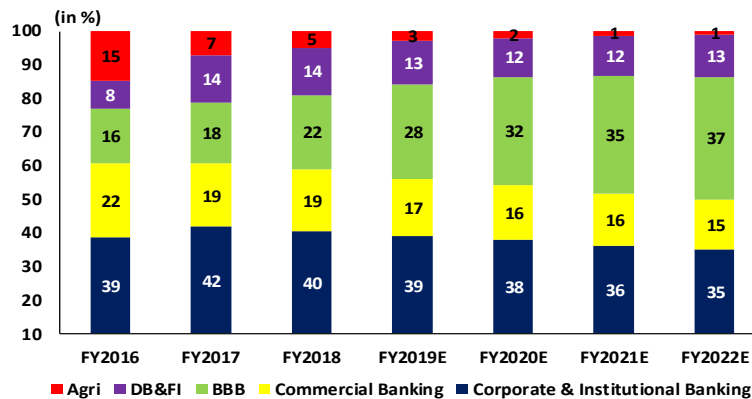
Scorching pace of credit growth



Key Financials (Rs in cr)

Y/E Mar	Net Interest Income	Non Interest Income	Adj. PAT	EPS	Adj. BV	ROE (%)	ROA (%)	P/E (x)	P/ Adj. BV(x)
2018	1,820.6	1,068.8	631.7	15.2	110.5	11.6	1.2	39.1	5.4
2019E	2,661.6	1,330.0	861.7	20.4	151.7	12.3	1.2	29.2	3.9
2020E	3,392.0	1,935.3	1,192.8	28.2	166.9	14.8	1.4	21.1	3.6
2021E	4,198.8	2,591.2	1,623.2	35.5	253.0	15.5	1.4	16.8	2.4
2022E	5,205.6	3,206.8	2,151.1	47.1	293.0	16.0	1.5	12.6	2.0

Share of retail set to increase



We are enthused by the fact that the asset quality of the bank did not deteriorate adversely despite the systemic credit risk, post the IL&FS saga and farm loan waiver. The bank has judiciously decided to let the farm credit book run off given the uncertainty associated with the recovery of farm loans.

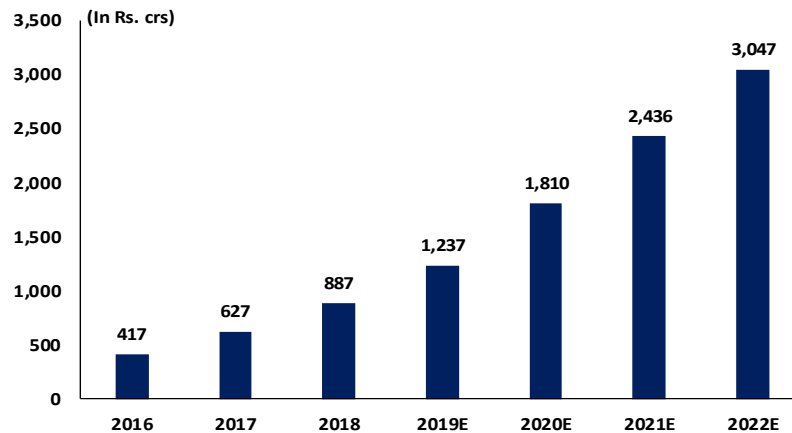
A direct fallout of the non-payment of farm credit has led to a minor elevation of the NPLs. Conservatory, we continue to build in elevated NPAs in our forecast model given the higher growth business segments.

Elevated NPL's on account of fast-growing business segments

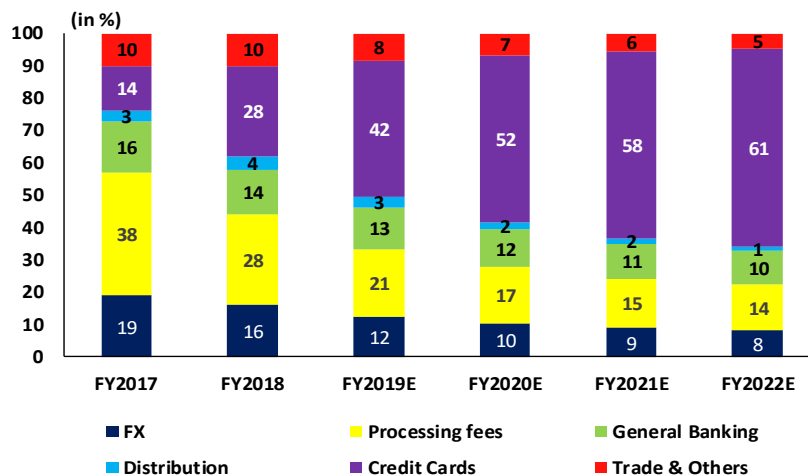
Y/E March	2017	2018	2019E	2020E	2021E	2022E
RBL Bank						
ROA (%)	1.08	1.21	1.2	1.4	1.4	1.5
ROE %	11.7	11.7	12.3	14.8	15.5	16.0
IndusInd Bank						
ROA (%)	1.9	1.9	1.7	1.8	1.9	1.1
ROE %	15.3	17.1	15.5	18.3	19.9	20.0
Yes Bank						
ROA (%)	1.8	1.6	1.4	1.5	1.5	1.6
ROE %	21.5	17.7	16.1	17.5	18.4	19.0

Fee income is very centric to the strategy of the bank. Core fee income is expected to grow at a CAGR of 36% to Rs.3,046 crs by FY22E from Rs. 881 crs in FY18, lead by the aggressive mobilization of card holders to 5.6 million by FY22 from the current 1.4 million.

Strong growth in core fee income



Rising share of cards in fee income



Net Interest Income is expected to grow at 30% CAGR by FY22E (in line with the advances book), given the fact that we have conservatively considered flat to reducing NIMs (3.9% by FY22). This remains an upside risk to our estimates on account of the

- higher contribution from high yielding Micro Finance and Credit card books
- tight control on the cost of funds despite lower CASA than immediate peers.

Cost to Income is not expected to dip significantly given the fact that the bank is considering an aggressive roll out of its network to over 400 branches from the current 288 branches.

Key Metrics

	Deposits	CASA %	Cost of Funds (%)	Cost/Income Ratio (%)	No. of Branches
RBL Bank					
2017	34,587.5	22.0	6.9	53.5	239
2018	43,883.1	24.3	6.7	53.0	265
2019E	58,358.6	24.6	6.4	52.0	295
2020E	78,712.0	24.5	6.6	51.3	336
2021E	105,121.4	24.8	6.7	49.8	374
2022E	138,031.1	25.6	6.8	49.0	400
IndusInd Bank					
2017	126,572.2	36.9	6.2	46.7	1,200
2018	151,639.2	44.0	5.8	45.7	1,400
2019E	188,953.1	43.0	6.2	43.9	1,600
2020E	235,549.5	43.0	6.3	45.4	1,750
2021E	294,512.9	42.5	6.4	46.0	1,950
2022E	73,628.23	42.0	6.5	46.5	2,150
Yes Bank					
2017	142,857.4	36.3	6.2	41.4	1,000
2018	200,688.6	36.5	5.5	40.2	1,100
2019E	246,278.1	33.6	5.8	39.6	1,120
2020E	302,651.3	34.8	5.7	41.4	1,125
2021E	371,057.0	36.0	5.7	41.1	1,130
2022E	456,400.1	36.5	5.6	40.9	1,135

❖ Capital raising on the cards

The scorching pace of growth has meant depletion of regulated capital and to sustain the growth rate, we believe that the RBL Bank will have to raise equity.

We estimate that the bank would need to raise Rs. 2,100 – 2,200 crs (3.5 cr shares at Rs.600 - 630 at 3x of Adj. BV of FY21E), which will help sustain growth over the forecast period while keeping Tier 1 capital at their self-determined threshold of 11%.

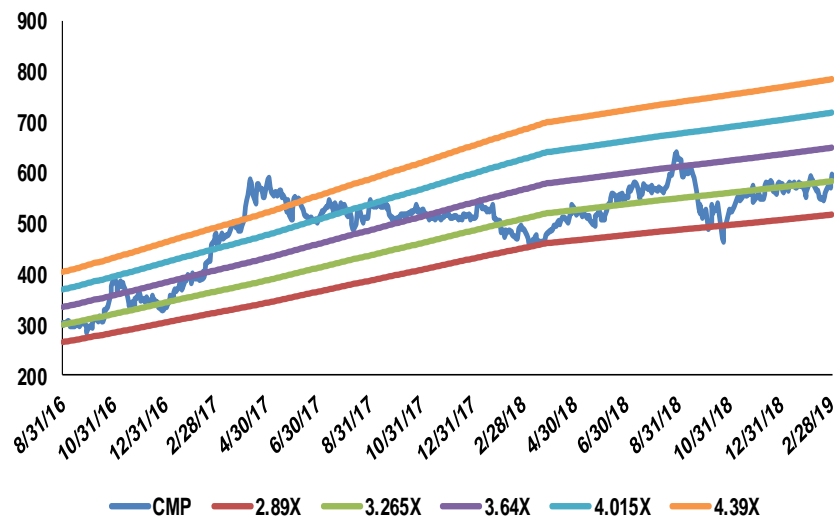
While the return ratios are currently lower than peers, we estimate that catch up will happen over the forecast period, leading to a re-rating of the stock.

We value the stock at Rs.820, i.e. 2.8x of price to adjusted book value for FY22E, representing an upside of 38% from its CMP of Rs.595

Comparison of Return Ratios

Y/E March	2017	2018	2019E	2020E	2021E	2022E
RBL Bank						
ROA (%)	1.08	1.21	1.2	1.4	1.4	1.5
ROE %	11.7	11.7	12.3	14.8	15.5	16.0
IndusInd Bank						
ROA (%)	1.9	1.9	1.7	1.8	1.9	1.1
ROE %	15.3	17.1	15.5	18.3	19.9	20.0
Yes Bank						
ROA (%)	1.8	1.6	1.4	1.5	1.5	1.6
ROE %	21.5	17.7	16.1	17.5	18.4	19.0

RBL PB Trend



Financials & Projections

Y/E March (₹ crore)	FY18	FY19E	FY20E	FY21E	FY22E	Y/E March (₹ crore)	FY18	FY19E	FY20E	FY21E	FY22E
Income Statement						Ratio Analysis					
Interest Income	4,561.5	6,460.2	8,472.3	11,032.8	14,238.5	Efficiency Ratio (%)					
Interest Expense	2,740.9	3,798.6	5,080.3	6,834.0	9,032.9	Int Expended / Int Earned	60.1	58.8	60.0	61.9	63.4
Net Interest Income	1,820.6	2,661.6	3,392.0	4,198.8	5,205.6	Int Income / Total Funds	7.4	8.3	8.5	8.4	8.5
YoY change (%)	49%	46%	27%	24%	24%	NII / Total Income	32.3	34.2	32.6	30.8	29.8
Non Interest Income	1,068.8	1,330.0	1,935.3	2,591.2	3,206.8	Other Inc. / Total Income	19.0	17.1	18.6	19.0	18.4
Total Net Income	2,889.4	3,991.6	5,327.3	6,790.1	8,412.5	Ope. Exp. / Total Income	27.5	26.6	26.2	24.8	23.6
Total Operating Expenses	1,548.1	2,075.6	2,730.3	3,378.1	4,122.1	Net Profit / Total Funds	1.0	1.1	1.2	1.3	1.3
Pre Provision profit	1,341.3	1,916.0	2,597.1	3,412.0	4,290.4	Credit / Deposit	91.8	92.5	90.5	88.8	87.9
YoY change (%)	46%	43%	36%	31%	26%	Investment / Deposit	35.1	30.1	25.0	20.6	17.0
Provisions for expenses	367.5	583.0	752.0	901.2	963.0	NIM	3.8	4.1	4.0	4.0	3.9
Profit Before Tax	973.8	1,333.0	1,845.1	2,510.8	3,327.4						
YoY change (%)	43%	37%	38%	36%	33%	Solvency					
Taxes	334.6	459.9	636.5	866.2	1,147.9	Gross NPA (Rs. Cr)	5,667.4	7,554.2	10,683.9	14,928.9	17,704.8
Net profit	639.2	873.1	1,208.5	1,644.6	2,179.4	Net NPA (Rs. Cr)	3,125.6	4,046.9	5,698.1	7,931.0	10,916.8
YoY change (%)	43%	37%	38%	36%	33%	Gross NPA (%)	1.4	1.4	1.5	1.6	1.65
						Net NPA (%)	0.78	0.75	0.8	0.85	0.9
Balance Sheet						Capital Adequacy Ratio (%)	15.3	13.7	12	15	14.2
Equity	419.7	428.1	428.1	463.1	463.1	Tier I Capital (%)	13.6	12.5	11	13.5	13
Reserves	6,279.7	7,144.1	8,340.5	12,078.1	14,235.7	Tier II Capital (%)	1.7	1.2	1	1.5	1.2
Deposits	43,883.1	58,358.6	78,712.0	105,121.4	138,031.1						
Demand	5,334.0	7,147.5	9,649.2	13,122.9	17,978.3	Per Share Data (₹)					
Savings	5,339.5	7,208.3	9,659.1	12,991.5	17,343.6	EPS	15.2	20.4	28.2	35.5	47.1
Term	33,209.7	44,002.8	59,403.8	79,007.0	102,709.1	Dividend Per Share	2.1	3.1	4.2	5.3	7.1
Borrowings	9,261.4	9,860.2	10,442.8	10,997.1	11,725.3	Book Value	159.2	176.4	204.2	270.2	316.6
Other Liability	2,033.4	2,094.4	2,136.2	2,179.0	2,222.5	Adjusted Book Value of Share	151.7	166.9	190.9	253.0	293.0
Total Liabilities	61,877.3	77,885.3	100,059.7	130,838.7	166,677.8						
Cash & Balances with RBI	2,589.5	2,883.3	3,143.8	3,365.6	3,603.5	Valuation Ratio					
Balances with Bank & call money	1,720.7	2,322.9	2,795.2	3,448.8	4,260.0	Price/Earnings (x)	39.1	29.2	21.1	16.8	12.6
Investments	15,397.0	17,552.6	19,658.9	21,624.8	23,462.8	Price/Book Value (x)	3.7	3.4	2.9	2.2	1.9
Loan and Advances	40,267.8	53,958.9	71,225.7	93,305.7	121,297.4	Price/Adj. Book Value (x)	3.9	3.6	3.1	2.4	2.0
Other Assets	1,902.2	1,167.6	3,236.0	9,093.9	14,054.0						
Total Assets	61,877.3	77,885.3	100,059.7	130,838.7	166,677.8	Return Ratio					
						RoAA (%)	1.2	1.2	1.4	1.4	1.5
Dupont Analysis						RoAE (%)	11.6	12.3	14.8	15.5	16.0
% of Average Assets											
Net Interest Income	3.3%	3.8%	3.8%	3.6%	3.5%	Growth Ratio (%)					
Non Interest Income	1.9%	1.9%	2.2%	2.2%	2.2%	Interest Income	22.8	41.6	31.1	30.2	29.1
Net Income	1.2%	1.2%	1.4%	1.4%	1.5%	Interest Expenses	10.0	38.6	33.7	34.5	32.2
Operating Expenses	2.8%	3.0%	3.1%	2.9%	2.8%	Other Income	41.5	24.4	45.5	33.9	23.8
Operating Profit	2.4%	2.7%	2.9%	3.0%	2.9%	Total Income	46.2	38.1	33.5	27.5	23.9
Provisions & Contingencies	0.7%	0.8%	0.8%	0.8%	0.6%	Net profit	43.3	36.6	38.4	36.1	32.5
Taxes	0.6%	0.7%	0.7%	0.8%	0.8%	Deposits	26.9	33.0	34.9	33.6	31.3
ROAA	1.2%	1.2%	1.4%	1.4%	1.5%	Advances	36.7	34.0	32.0	31.0	30.0

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