

# RBL Bank

View: Neutral

## Viewpoint

Too fast too soon

CMP: Rs498

### Key points

- ♦ **Strategy of modernising bank with deeper customer engagement:** RBL Bank has been successful in transforming itself from a regional bank to a new-age private bank. We are also positive on its strategy of deeper customer engagement. Addressing funding needs by following strategies to engage clients more deeply will not only result in improved fee incomes and cross selling opportunities, but also lead to a more long-term relationship with the clients. As part of its strategy to expand its clientele (predominantly Corporate and SME), RBL Bank bought the credit card & mortgage business of Royal Bank of Scotland (RBS) in 2013, scaling up its retail portfolio. We believe that the bank is on the right track to develop a diversified and loyal customer base, both Corporate and Retail, which will be critical for sustainable business growth going forward.
- ♦ **Structurally low inertia to change:** RBL Bank has come a long way in improving its business model, brand image, small geographical presence and limited product offerings. However, it is critical that the vision of the new Board and management under Vishwvir Ahuja (ex-Head of Bank of America) and his team, which bring to the table a rich and contemporary banking knowledge & expertise, is implemented effectively and diligently. The present top management is incentivised with ESOP (outstanding ESOPs at 9.4% of the capital base) and ~67% of the RBL Bank workforce is covered under the ESOP plan. Since ~11% of employees are unionised, with an average age of over 35 years, we believe that resistance to change should be minimal.
- ♦ **Capital infusion likely in FY2018; will improve valuation:** RBL Bank's Tier 1 capital is at 11.31% and considering the present capital burn rate, we expect a likely capital infusion in FY2018. While the quantum of equity dilution will be confirmed and announced at a later date, our calculation indicates that at current valuation, by raising 5-8% additional equity, RBL Bank will be able to provide adequate Tier 1 till FY2019E. Also, the increase in book value will make valuation more reasonable and attractive for investors. At the current valuation, any equity infusion will be book value accretive and will translate into ~2.8x FY2019E Price/ABV, which will be reasonably attractive.
- ♦ **Valuation & outlook - rich valuation to limit upside in near term; downgrade from Positive to Neutral:** RBL Bank is fast transforming into a modern bank with competitive products and services offerings. We are positive on the development and progress of RBL Bank. We believe that it is well on its way to becoming an attractive banking franchise going forward. We have fine-tuned our estimates and introduced FY2019E estimates. Considering the current capital burn rate, RBL Bank may need to raise equity capital during FY2018, which at current valuation will be book value accretive. At the CMP, RBL Bank is available at 3.4x FY2019E ABV. However, with the current stock price movement, we believe that short-term upside is limited (4-5%). We have changed our stance from 'Positive' to 'Neutral'. Though the long-term prospects of RBL Bank remain bright, and current investors may continue to hold, we opine that fresh entry should be made at a better price point.
- ♦ **Risks to our call:** Lending to low-income groups is a difficult business, requiring close monitoring and prudent risk management, absence of which may lead to a material increase in GNPA's, thereby impacting the bank's profitability. Also, inability to boost the Retail business and CASA deposits may affect funding costs and growth.

Valuation	Rs cr				
Particulars	FY15	FY16	FY17E	FY18E	FY19E
Net interest income	556.9	819.6	1,105.5	1,512.7	2,102.2
Growth (%)	63	47	35	37	39
Pre-provisioning profit	360.7	542.9	802.8	1,144.9	1,636.6
Growth (%)	101	51	48	43	43
PAT	207.7	292.9	421.2	612.4	880.5
Growth (%)	123	41	44	45	44
EPS (Rs)	7.1	9.0	11.4	16.4	23.6
Growth (%)	107	27	26	44	44
BVPS (Rs)	76.0	92.0	112.7	124.9	143.8
Growth (%)	3	21	23	11	15
P/E (x)	70.1	55.0	43.5	30.2	21.0
P/BV (x)	6.5	5.4	4.4	4.0	3.4

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