

# Viewpoint

## Healthy business traction, though asset quality deteriorates marginally

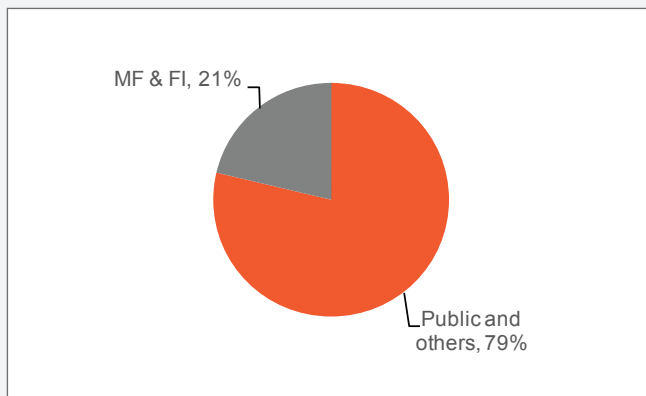
### RBL Bank

View: Positive | CMP: Rs539

#### Company details

Market cap:	Rs20,297 cr
52-week high/low:	Rs600/274
NSE volume: (No of shares)	18.2 lakh
BSE code:	540065
NSE code:	RBLBANK
Sharekhan code:	RBLBANK
Free float: (No of shares)	37.67 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	5.5	-7.0	42.3	-
Relative to Sensex	3.0	-15.3	20.4	-

#### Key points

- Robust operating performance:** RBL Bank (RBL) posted strong operational performance in Q1FY18 as the net interest income increased by 54.7% YoY to Rs378.4 crore while the non-interest income was up by 53.3% YoY to Rs256.9 crore. Strong growth in the net interest income was driven by healthy loan book traction (up 39.7% YoY) and expansion in the net interest margins (NIM) (up 74BPS YoY to 3.54%). Growth in non-interest income was boosted by a 107% YoY rise in the distribution fees. Expansion in the net interest margins was helped by lower cost of funds on account of higher CASA and persisting lower interest rate environment.
- Outlook:** While strong growth momentum has been maintained, we find that the microfinance has been the main point of pain due to external factors. Going forward, the management has indicated course correction with steps like vintage customers to graduate to individual loans, deepening customer relationships and engagement across other banking products. The bank will also use Data and analytics to price risk better. Moreover, tweaking the business model for absorption of loss provisions of around 1.5%-2.0% p.a., over the business life cycle as against a historical average of around 0.4% p.a. are positive indicators. We believe that RBL's business transformation is on track, albeit with welcome course corrections and are positive on the stock.
- Valuations:** Considering the present valuation, we believe that short-term pains are factored in the price. The proposed QIB placement, will be book value accretive and make valuations further attractive. We are changing our stance from "Neutral" to "Positive" and believe that there may be 15-17% upside on the stock.

◆ **Advances growth healthy, CASA improves further:** RBL saw its loan book expanding at impressive pace of 39.7% YoY aided by 37.1% YoY growth in the wholesale book while non-wholesale book grew at an even better pace of 43.8% YoY. Within the wholesale segment, corporate & institutional banking (C&IB) grew by (47.4% YoY) and Commercial Banking moved up by 17.5% YoY. The non-wholesale book growth was mostly driven by business and branch banking (up 63.4% YoY) and Development Banking & Financial Inclusion (up 128.8% YoY). The Management targets a loan book breakup of 50:50 between wholesale and non-wholesale book in next few years. This is as compared to the current break-up of 60:40. We can therefore expect the non-wholesale book growth to remain faster than the wholesale segment. The CASA ratio during the quarter improved

by 362BPS YoY and 11BPS QoQ to 22.1% due to 121.2% YoY growth in the savings account.

◆ **Asset quality niggles a dampener:** During the quarter, RBL Bank witnessed some decline in asset quality with its Gross Non Performing Asset (GNPA%) ratio increasing to 1.46% (up 26BPS qoq) and the net NPA (NNPA) ratio at 0.81%(up 17BPS qoq) mainly as its Agri portfolio and development banking and financial inclusion (DB&FI that includes Microfinance etc) segments saw some stress. Agri GNPA's increased to 1.03% (up 21BPS qoq) and DB&FI increased to 2.39% (up 191 BPS qoq) being the main pressure points. The restructured standard assets portfolio was flat at 0.25% on sequential basis. RBL Bank's provisioning coverage ratio (including technical write-offs) PCR was 58% (down 158BPS qoq).

## Results

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Net interest income	378.4	244.7	54.7	352.2	7.4
Non-interest income	256.9	167.5	53.3	236.6	8.6
Net total income	635.3	412.2	54.1	588.7	7.9
Operating expenses	323.9	227.7	42.2	307.0	5.5
-Employee expenses	133.0	100.3	32.6	112.9	17.9
-Other operating expenses	190.9	127.5	49.8	194.1	-1.6
Pre-provisioning profit	311.4	184.5	68.8	281.8	10.5
Provisions	94.5	42.6	121.7	82.1	15.1
Profit before tax	216.9	141.9	52.9	199.7	8.7
Tax	75.9	44.5	70.5	69.5	9.2
Profit after tax	141.0	97.3	44.9	130.1	8.4
<b>Asset quality</b>					
Gross NPLs	457.81	252.61	81.2	356.84	28.3
-Gross NPLs (%)	1.46	1.13	33 bps	1.20	26 bps
Net NPLs	250.42	147.80	69.4	189.94	31.8
-Net NPLs (%)	0.81	0.66	15 bps	0.64	17 bps
<b>Key reported ratios (%)</b>					
NIM	3.54	2.80	74 bps	3.52	2 bps
CASA	22.1	18.5	362 bps	22.0	11 bps

## Valuations

Particulars	Rs cr				
	FY15	FY16	FY17	FY18E	FY19E
NII	556.9	819.6	1221.3	1799.3	2567.7
Growth %	63%	47%	49%	47%	43%
Pre-Provisioning Profit	360.7	542.9	920.4	1297.6	1799.4
Growth %	101%	51%	70%	41%	39%
PAT	207.7	292.9	446.1	631.5	911.6
Growth %	123%	41%	52%	42%	44%
EPS	7.1	9.0	11.9	15.5	22.4
Growth %	107%	27%	32%	30%	44%
BVPS	76.0	92.0	115.6	120.2	139.6
Growth %	3%	21%	26%	4%	16%
P/E (x)	76.1	59.7	45.3	34.8	24.1
P/BV (x)	7.1	5.9	4.7	4.5	3.9

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