

January 7, 2018

RBL Bank

RBL Bank (RBL), formerly Ratnakar Bank, was founded in 1943 and is a 75-year old bank now. Post induction of Mr. Vishwavi Ahuja, RBL has transformed from a small & regional bank to a new age bank with all the products and technologies that any private bank has to offer. The bank's advances have registered healthy CAGR of 42% over FY2014-18. As of Q2FY2019, it has branch network of 268 and CASA ratio of 24.5%; wholesale lending forms 59% of advances and retail 41%.

VISION 2020 – Well on track: In FY2016, RBL came up with an IPO and had set VISION 2020 with a target to grow advances at 30-35% CAGR, increase CASA by 75-100bps every year and elevate ROA to 1.5% by 2020. Since, then, the bank has been progressing on the path to achieve this target. Advances grew at healthy CAGR of 38% over FY2016-18 and CASA increased by 590bps to 24.5% in Q2FY2019. Further, cost control measures, improvement in core fee income and stable asset quality has aided ROA improvement by 0.28bps to 1.26% in Q2FY2019.

Impeccable asset quality: Despite growing the loan book aggressively, RBL Bank's asset quality has not deteriorated like that of other corporate lenders. RBL's GNPA rose from 1% in FY2016 to 1.40% in Q2FY2019 however, other corporate lenders witnessed deterioration in asset quality by more than 400bps during the same time. As on Q2FY2019, restructured assets are 0.7% of advances, exposure to IBC list I/II is negligible and in RBL annual review of Asset quality banks divergence was negligible, where RBL checks that all NPA are disclosed as per norms. This clearly indicates strong risk management practice of the bank.

NIM to sustain: NIM has improved 120bps from FY2016 to 3.8% in Q2FY2019. Despite offering differential rates in SA deposits, NIM has been improving continuously, owing to rising share of high yielding retail loans and lower interest reversals, as slippages remain under control. We expect that NIMs will remain stable over FY2018-20E, as retail contribution is likely to grow and COF to remain moderate with rising CASA.

Outlook & valuation: RBL Bank currently trades at 2.9x its FY2020E book value, which we believe is reasonable for a bank with focused management, high-growth traction, improving CASA and prospects of improvement in NIM & return ratio. **Hence, we recommend Buy on the stock, with a Target Price of ₹690.**

Exhibit 1: Key Financials

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
NII	819	1,221	1,766	2,478	3,219
% chg	42	42	27	33	34
Net profit	292	446	635	914	1,195
% chg	41.2	52.5	42.3	44.0	30.7
NIM (%)	2.6	2.9	3.4	3.6	3.6
EPS (₹)	7.0	10.6	15.1	21.8	28.5
P/E (x)	75	49	35	24	18
P/ABV (x)	7.5	5.2	3.4	3.0	2.7
RoA (%)	0.9	1.0	1.1	1.3	1.3
RoE (%)	11.2	12.2	11.5	12.9	15.0

Source: Company CMP as on 07/01/2019

BUY

CMP ₹573
 Target Price ₹690

Investment Period 12 Months

Stock Info

Sector	Banking
Market Cap (₹ cr)	24,122
Beta	1.1
52 Week High / Low	652/439
Avg. Daily Volume	73,296
Face Value (₹)	10
BSE Sensex	35,850
Nifty	10,771
Reuters Code	RATB.NS
Bloomberg Code	RBK.IN

Shareholding Pattern (%)

Promoters	7.8
MF / Banks / Indian Fls	20.7
FII / NRIs / OCBs	39.8
Indian Public / Others	31.7

Abs.(%)	3m	1yr	3yr
Sensex	(1.7)	6.1	-
RBL Bank	8.5	10.8	-

3-year price chart



Source: Company, Angel Research

Jaikishan Parmar

Research Analyst

022 – 3935 7800 Ext: 6810

Jaikishan.parmar@angelbroking.com

Key investment arguments

VISION 2020 – Well on track: In FY2016, RBL came up with an IPO and had set VISION 2020 with a target to grow advances at 30-35% CAGR, increase CASA by 75-100bps every year and elevate ROA to 1.5% by 2020. Since, then, the bank has been progressing on the path to achieve this target. Advances grew at healthy CAGR of 38% over FY2016-18 and CASA increased by 590bps to 24.5% in Q2FY2019. Further, cost control measures, improvement in core fee income and stable asset quality has aided ROA improvement by 0.28bps to 1.26% in Q2FY2019.

Exhibit 1: Vision 2020 well on track

Particular	RBL Vision 2020	Actual 2QFY19				
	(Post IPO/Sept 2016)	FY16	FY17	FY18	1QFY19	2QFY19
Advances	30-35% CAGR	47	39	37	36	37
CASA Ratio (%)	0.75 - 1% increase every year	18.6	22	24.3	24.5	24.5
Operational Efficiency (%)	Cost/Income ratio of 51% - 52% by 2020	58.6	53.5	53	51.5	51.5
Return Ratios (%)	~ 1.50% RoA by 2020	0.98	1.08	1.21	1.22	1.26
Other Income (%)	~ 1/3rd of Net Total Income	37	38	38	37	36

Source: Company

Retail business to drive growth: Since FY2012, RBL Bank has been focusing on building the retail business and the retail book has been growing at healthy rate. RBL has divided retail assets into three verticals viz. (1) Branch & Business Banking (BBB), (2) Development Banking, and (3) Financial Inclusion (DB&FI) and Agri.

BBB segment offers LAP, business loans, personal loans, cards and other loans.

Exhibit 2: Retail loan book trend

Particular (₹)	FY13	FY14	FY15	FY16	FY17	FY18
BBB	690	1630	2360	3465	5,370	8,891
yoy %		136	45	47	55	66
DB & FI	720	1320	2080	3,133	4,122	5,684
yoy %		83	58	51	32	38
Agri	210	620	1340	1756	2,109	1,940
yoy %		195	116	31	20	-8
Non-Wholesale	1,620	3,570	5,780	8,354	11,601	16,515
yoy %		120	62	45	39	42

Source: Company

RBL is gaining market share in credit cards:

RBL had tied up with Bajaj Finance (NBFC) in FY2017 to launch a series of co-branded credit cards for Indian customers. With this partnership, RBL Bank is strengthening its scale of operations in the credit cards business, while the

partnership has also enabled Bajaj Finance to expand its EMI network, especially in the consumer finance space.

The tie up with Bajaj Finance coupled with focused approach of the management to build the credit card portfolio, has resulted into an increase in the market share of RBL Bank, which has doubled over the last one year. Its share in outstanding number of cards has increased from a minuscule 0.9% in March 2017 to 2.1% in March 2018. The tie up has worked very well for RBL (refer Exhibit 4).

Exhibit 3: RBL has gained market share

Particulars (%)	Mar-16	Mar-17	Mar-18	Apr-18	May-18	Jun-18	Jul-18	Aug-18
HDFC Bank Ltd	29.7	28.6	28.5	28.6	28.5	28.4	28.3	28.2
State Bank Of India	14.8	15.3	16.7	16.8	16.8	16.8	16.7	16.7
ICICI Bank Ltd	14.9	14.3	13.3	13.3	13.4	13.4	13.4	13.4
Axis Bank Ltd	9.8	11.2	12.0	12.0	11.9	11.8	11.8	11.9
Citi Bank	9.8	8.5	7.1	6.7	6.7	6.7	6.6	6.5
Kotak Mahindra Bank Ltd	3.0	3.5	3.9	4.0	4.0	4.1	4.1	4.1
Standard Chartered Bank Ltd	4.1	3.7	3.3	3.4	3.3	3.3	3.2	3.2
American Express	3.4	3.4	3.2	3.2	3.2	3.1	3.1	3.1
Ratnakar Bank Limited	0.6	0.9	2.1	2.3	2.4	2.5	2.6	2.7
IndusInd Bank Ltd	1.8	2.0	2.1	2.1	2.1	2.1	2.1	2.1

Source: Company

Majority of the banks have incrementally added new credit cards in the range of 1.1x to 2x over FY2017-18, however, RBL has added 3.9x over the same time period. RBL has not only added credit cards but has enhanced the the customer base also, which has proved to be business accretive. The share in number of transactions has increased & spending per card has been continuously rising. RBL's ticket size per transaction has improved steadily and it is amongst the top five in the industry.

Exhibit 4: New credit card addition growth

Particular	Mar-17	Mar-18	YoY Growth
HDFC Bank Ltd	1,31,416	5,18,726	3.95
State Bank Of India	81,903	1,61,169	1.97
ICICI Bank Ltd	9,49,006	16,89,312	1.78
Axis Bank Ltd	12,63,028	21,41,655	1.70
Citi Bank	1,42,321	1,98,638	1.40
Kotak Mahindra Bank Ltd	3,17,195	4,18,078	1.32
Standard Chartered Bank Ltd	6,00,940	7,43,543	1.24
American Express	9,33,167	11,39,659	1.22
Ratnakar Bank Limited	1,28,434	1,46,069	1.14
IndusInd Bank Ltd	1,68,001	1,78,257	1.06

Source: Company

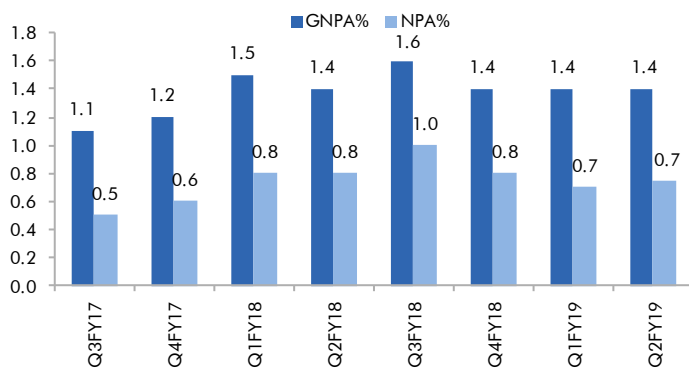
RBL is aiming to double the customer base in FY2019E and the bank has set a target of 40 lakh card users (customers) by FY2021E, as it aims to become a prominent player in the country. Bajaj Finance has customer base of over ~30 million, which will help RBL to achieve its target of becoming top player in the

industry. Improvement in credit card business would help RBL to grow its retail loan book and also aid to generate higher fee income.

Impeccable asset quality: Most of the corporate lenders have witnessed jump in GNPA largely owing to exposure to steel and power sectors, where lot of projects have got stuck owing to delay in regulatory approvals and changes in policy. Further, in RBI's annual review of Asset quality, RBL's divergence was negligible, where RBI checks that all NPA are disclosed as per norms.

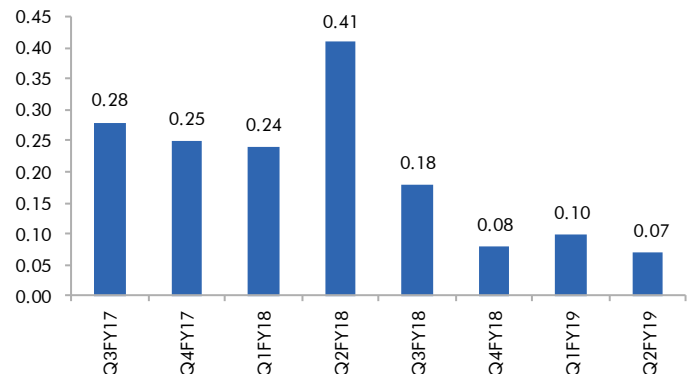
According to Divergence with the RBI during asset quality review (AQR) on FY2016, the gross NPAs for RBL stood at 1.6% of FY2016 advances. For FY2017, divergence further reduced and which is just 17bps of Q3FY18 loan book. This clearly indicates that the bank is following strong credit risk monitoring.

Exhibit 5: GNPA & NPA



Source: Company

Exhibit 6: Restructured assets as (%) of advance



Source: Company

Despite growing the loan book aggressively, RBL Bank's asset quality has not deteriorated like that of other corporate lenders. RBL's GNPA rose from 1% in FY2016 to 1.40% in Q2FY2019 however, other corporate lenders witnessed deterioration in asset quality by more than 400bps during the same time. As on Q2FY2019, restructured asset is 0.7% of advances, exposure to IBC list I/II is negligible in RBI annual review of Asset quality banks divergence was negligible, which clearly indicates strong risk management practices of the bank.

NIM to sustain: NIM has improved 120bps from FY2016 to 3.8% in Q2FY2019. Despite offering differential rates in SA deposits, NIM has been improving continuously, owing to rising share of high yielding retail loans and lower interest reversals, as slippages remain under control. We expect that NIMs will remain stable over FY2018-20E, as retail contribution is likely to grow and COF to remain moderate with rising CASA.

Outlook & valuation: RBL Bank currently trades at 2.9x its FY2020E book value, which we believe is reasonable for a bank with focused management, high-growth traction, improving CASA and prospects of improvement in NIM & return ratio. Hence, we recommend Buy on the stock, with a Target Price of ₹690.

Exhibit 7: Comparative DuPont analysis

Du Pont (%) FY2018	RBL Bank	HDFC Bank	ICICI Bank	IndusInd Bank	Yes Bank	DCB Bank	Federal Bank	City Union Bank
NII	3.2	4.2	2.8	3.7	2.9	3.7	2.8	3.8
Non Interest Income	1.9	1.6	2.1	2.4	2.0	1.1	0.9	1.4
Total Revenues	5.1	5.7	4.9	6.1	4.9	4.8	3.7	5.2
Operating Cost	2.6	2.5	1.9	2.8	2.0	2.9	1.9	2.0
PPP	2.5	3.3	3.0	3.3	2.9	1.9	1.8	3.2
Total provisions	0.7	0.6	2.1	0.6	0.6	0.5	0.7	1.1
Pre-Tax Profit	1.8	2.7	0.9	2.7	2.3	1.4	1.1	2.1
Tax	0.7	1.0	0.1	0.9	0.7	0.5	0.4	0.5
ROA	1.1	1.7	0.8	1.8	1.6	0.9	0.7	1.6
Leverage	10.0	9.8	8.1	9.0	11.0	10.8	12.0	9.7
RoE (%)	11.5	16.8	6.6	16.2	17.7	9.8	8.3	15.3

Source: Company

Company background

RBL Bank (RBL), formerly Ratnakar Bank, was founded in 1943 and is a 75-year old bank now. Post induction of Mr. Vishwvir Ahuja, RBL has transformed from a small & regional bank to a new age bank with all the products and technologies that any private bank has to offer. The bank's advances have registered healthy CAGR of 42% over FY2014-18. As of Q2FY2019, it has branch network of 268 and CASA ratio of 24.5%; wholesale lending forms 59% of advances and retail 41%.

Key risks to our estimates

- Deterioration in asset quality, slowdown in growth and bloating up of costs are the key risks.
- Unsecured loan book resulting in higher than anticipated defaults and credit costs.

Income Statement

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Net Interest Income	819	1,221	1,766	2,478	3,219
- YoY Growth (%)	47	49	45	40	30
Other Income	491	755	1,068	1,372	1,852
- YoY Growth (%)	22	54	41	28	35
Operating Income	1,310	1,977	2,834	3,850	5,072
- YoY Growth (%)	36	51	43	36	32
Operating Expenses	767	1,056	1,504	1,975	2,601
- YoY Growth (%)	28	38	42	31	32
Pre - Provision Profit	542	920	1,331	1,874	2,470
- YoY Growth (%)	51	70	45	41	32
Prov. & Cont.	114	239	365	489	660
- YoY Growth (%)	90	109	53	34	35
Profit Before Tax	428	681	966	1,385	1,810
- YoY Growth (%)	43	59	42	43	31
Prov. for Taxation	136	235	331	471	615
- as a % of PBT	32	35	34	34	34
PAT	292	446	635	914	1,195
- YoY Growth (%)	41	53	42	44	31

Balance Sheet

Y/E March (₹ cr)	FY16	FY17	FY18	FY19E	FY20E
Equity	325	375	420	420	420
Reserve & Surplus	2,665	3,960	6,264	7,041	8,057
Networth	2,989	4,336	6,684	7,461	8,476
Deposits	24,349	34,588	43,902	58,325	78,303
- Growth (%)	42	42	27	33	34
Borrowings	10,536	7,980	9,261	12,410	16,630
Other Liab. & Prov.	1,330	1,785	2,003	3,851	3,854
Total Liabilities	39,204	48,689	61,851	82,047	1,07,263
Cash Balances	1,340	2,948	2,589	3,578	4,782
Bank Balances	1,110	1,246	1,695	2,045	2,733
Investments	14,436	13,482	15,448	19,934	23,910
Advances	21,229	29,449	40,268	54,362	73,388
- Growth (%)	47	39	37	35	35
Fixed Assets	177	259	334	460	615
Other Assets	912	1,306	1,517	1,669	1,836
Total Assets	39,204	48,689	61,851	82,047	1,07,263

Key Ratio

Y/E March	FY16	FY17	FY18	FY19E	FY20E
Profitability ratios (%)					
NIMs	2.6	2.9	3.4	3.6	3.6
Cost to Income Ratio	58.6	53.4	53.0	51.3	51.3
RoA	0.9	1.0	1.1	1.3	1.3
RoE	11.2	12.2	11.5	12.9	15.0
B/S ratios (%)					
CASA Ratio	0.19	0.22	0.24	0.25	0.26
Credit/Deposit Ratio	0.9	0.9	0.9	0.9	0.9
Asset Quality (%)					
Gross NPAs	0.98	1.21	1.41	1.33	1.25
Gross NPAs (Amt)	208.1	356.8	566.7	723.0	917.4
Net NPAs	0.59	0.64	0.78	0.73	0.73
Net NPAs (Amt)	124.4	189.9	314.0	396.8	535.7
Slippages					
Credit Cost on Advance	0.54	0.81	0.91	0.90	0.90
Provision Coverage	60%	53%	55%	55%	58%
Per Share Data (₹)					
EPS	7.0	10.6	15.1	21.8	28.5
BV	71.2	103.3	159.3	177.8	202.0
ABVPS (75% cover.)	69.8	101.3	155.8	173.5	195.8
DPS	1.5	1.8	2.3	3.3	4.3
Valuation Ratios					
PER (x)	81.9	53.7	37.7	26.2	20.1
P/BV	8.0	5.5	3.6	3.2	2.8
P/ABVPS (x)	8.2	5.6	3.7	3.3	2.9
Dividend Yield	0.3	0.3	0.4	0.6	0.7

Valuation done on closing price of 04/01/2019

Research Team Tel: 022 - 39357800

 E-mail: research@angelbroking.com

 Website: www.angelbroking.com
DISCLAIMER:

Angel Broking Limited (hereinafter referred to as "Angel") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited, Metropolitan Stock Exchange Limited, Multi Commodity Exchange of India Ltd and National Commodity & Derivatives Exchange Ltd It is also registered as a Depository Participant with CDSL and Portfolio Manager and Investment Adviser with SEBI. It also has registration with AMFI as a Mutual Fund Distributor. Angel Broking Limited is a registered entity with SEBI for Research Analyst in terms of SEBI (Research Analyst) Regulations, 2014 vide registration number INH000000164. Angel or its associates has not been debarred/ suspended by SEBI or any other regulatory authority for accessing /dealing in securities Market. Angel or its associates/analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months.

This document is solely for the personal information of the recipient, and must not be singularly used as the basis of any investment decision. Nothing in this document should be construed as investment or financial advice. Each recipient of this document should make such investigations as they deem necessary to arrive at an independent evaluation of an investment in the securities of the companies referred to in this document (including the merits and risks involved), and should consult their own advisors to determine the merits and risks of such an investment.

Reports based on technical and derivative analysis center on studying charts of a stock's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamentals. Investors are advised to refer the Fundamental and Technical Research Reports available on our website to evaluate the contrary view, if any

The information in this document has been printed on the basis of publicly available information, internal data and other reliable sources believed to be true, but we do not represent that it is accurate or complete and it should not be relied on as such, as this document is for general guidance only. Angel Broking Limited or any of its affiliates/ group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. Angel Broking Limited has not independently verified all the information contained within this document. Accordingly, we cannot testify, nor make any representation or warranty, express or implied, to the accuracy, contents or data contained within this document. While Angel Broking Limited endeavors to update on a reasonable basis the information discussed in this material, there may be regulatory, compliance, or other reasons that prevent us from doing so.

This document is being supplied to you solely for your information, and its contents, information or data may not be reproduced, redistributed or passed on, directly or indirectly.

Neither Angel Broking Limited, nor its directors, employees or affiliates shall be liable for any loss or damage that may arise from or in connection with the use of this information.

Disclosure of Interest Statement	RBL Bank
1. Financial interest of research analyst or Angel or his Associate or his relative	No
2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives	No
3. Served as an officer, director or employee of the company covered under Research	No
4. Broking relationship with company covered under Research	No

Ratings (Based on expected returns over 12 months investment period):	<i>Buy (> 15%)</i>	<i>Accumulate (5% to 15%)</i>	<i>Neutral (-5 to 5%)</i>
		<i>Reduce (-5% to -15%)</i>	<i>Sell (< -15)</i>