Indbank Merchant Banking Services Ltd (A Subsidiary of Indian Bank)

RBL Bank Ltd.

October 4, 2017

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RBL Bank Ltd. has emerged as one of the fastest growing private sector banks with a network of 244 branches and 387 ATMs. It provides a wide range of customized banking products and services to large corporations, SMEs, agricultural customers, retail customers and low income customers.

Key Events

Transformation under way:

The transformational journey of RBL Bank started in 2010 when the new management team took charge led by MD & CEO Mr Vishwavir Ahuja, who was previously serving as MD & Country CEO of Bank of America for the Indian subcontinent. Under his vision and leadership, the bank has repositioned itself from being a traditional bank to a new age bank competing with other private sector banks. The bank is increasingly focusing on the lucrative retail segment instead of focusing on just corporates and SMEs. Further, the bank has invested significantly in technology, network, human capital and risk management over the past six years.

Well diversified product portfolio:

Prior to 2010, the bank was largely involved in commercial (SME/mid-corporate) banking in Maharashtra and Karnataka. However, under the new management, RBL Bank has adopted a differentiated approach of building a diversified loan book using a unique positioning strategy. The business segments were reorganised into two verticals viz. wholesale and retail. The wholesale business segment consists of Corporate and Institutional Banking (“C&IB”) and Commercial Banking (“CB”) whereas the retail business segment includes Branch and Business Banking (“BBB”), Agribusiness Banking (“AB”), Development Banking and Financial Inclusion (“DB&FI”) and Treasury and Financial Markets Operations.

Focused approach to support robust growth momentum:

RBL Bank has adopted both organic as well as inorganic strategy to sustain strong growth momentum over the last five years. Organically, the bank has been focusing on selective segments to drive profitable growth by catering to the funding and working capital needs of large and mid-sized corporates. To push its retail business, it acquired the credit card & mortgage business of The Royal Bank of Scotland (RBS) and has been expanding the same along with other new retail products (38% of its total advances). As a result, the bank reported scorching growth of 82% CAGR in earnings, 60% CAGR in deposits and 58% CAGR in advances over FY11-FY17 resulted in increase in market share to 0.3% from as low as 0.1% in FY12.

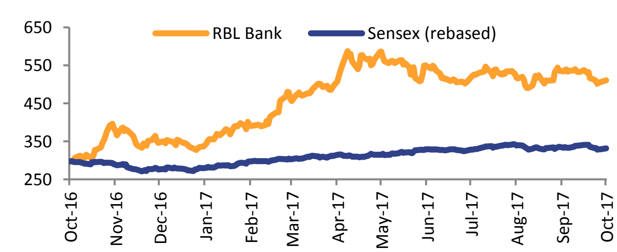
Market Data

CMP (Rs.)	**510**
Face Value (Rs.)	10
52 week H/L (Rs.)	600/295
Adj. all time High (Rs.)	600
Decline from 52WH (%)	15.0
Rise from 52WL (%)	72.9
Beta	1.1
Mkt. Cap (Rs.Cr)	21,175
Enterprise Value (Rs.Cr)	-

Fiscal Year Ended

	FY15	FY16	FY17
NII (Rs.cr)	556	819	1,221
PPP (Rs.cr)	360	542	920
PAT (Rs.Cr)	207	292	446
EPS (Rs.)	7.0	9.4	11.8
P/E (x)	70.6	53.1	40.5
P/ABV (x)	6.8	5.8	4.6
ROA (%)	0.9	0.9	1.0

One year Price Chart



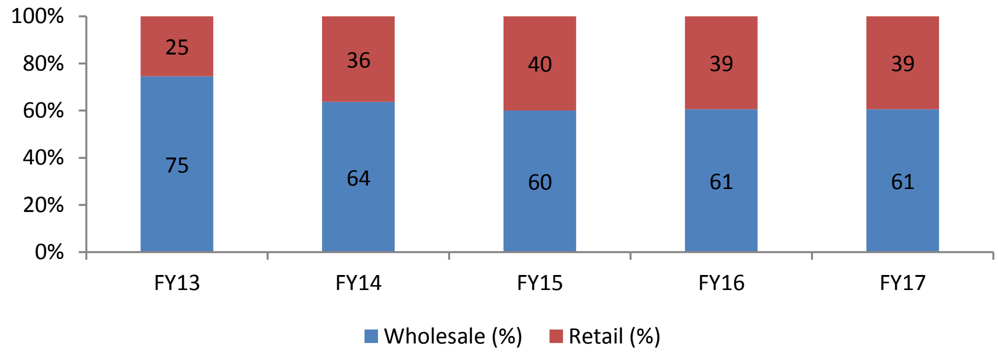
Shareholding	Jun-17	Mar-17	Diff.
Promoters (%)	-	-	-
Public (%)	100.0	100.0	-
Others (%)	-	-	-

RBL Bank Ltd: Business overview

RBL Bank Ltd, the erstwhile Ratnakar Bank Ltd, has a long history in India with operations since 1943 when the bank was incorporated as a small regional bank in Maharashtra with two branches in Kolhapur and Sangli. The bank has been in existence for the last 73 years and it has successfully transformed itself from a traditional bank to a new age bank over the last six years. In June 2010, Ratnakar bank appointed Mr. Vishwavir Ahuja as managing director and CEO to lead the bank's transformation.

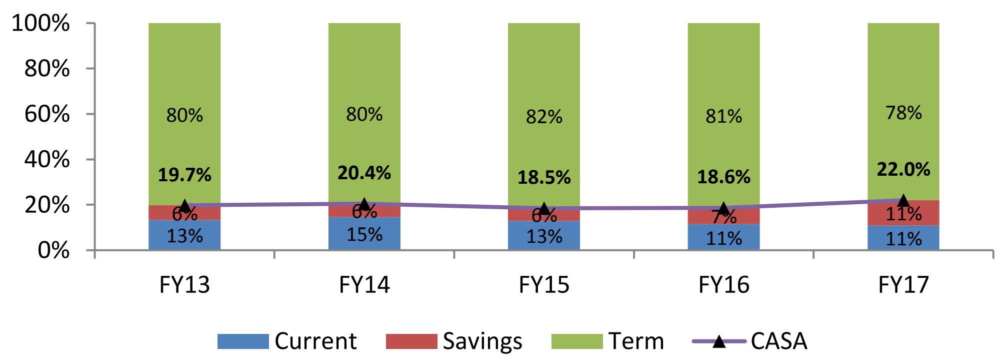
In the past five years, the bank has focused on building a comprehensive product suite, improving risk management, upgrading technology by implementing a new-age core banking system platform and expanding its distribution network to 244 branches and 387 ATMs. As part of its growth strategy, the bank acquired certain Indian businesses of RBS in FY14, including RBS's business banking and its credit card and mortgage portfolios. It provides a wide range of customized banking products and services to large corporations, SMEs, agricultural customers, retail customers and low income customers.

Advances Mix



Source: Company, In-house research

Deposits Mix



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C&IB segment

Under the C&IB segment, the bank gives working capital loans to large corporates having a turnover of over Rs1,500cr. However, the bank has been selective in lending to large corporates and is strongly focused on the quality of business originated from such clients. The ticket size of these loans varies from Rs5cr to Rs40cr with tenure of less than 2 years. Moreover, about 22% exposure in the segment is non-fund based (LCs, remittances, etc). C&IB remains one of the key growth drivers for RBL Bank. C&IB's loan book grew at a robust CAGR of 45% over FY13-17 and accounted for 42% of the loan book as of FY17.

CB segment

In the CB segment, RBL bank provides loans to small and medium enterprises (SMEs) having a turnover of Rs250-1,500cr. The ticket size of these loans ranges from Rs5cr to Rs15cr for a tenure of less than 2 years. The CB portfolio grew at a 29% CAGR over FY13-17, accounting for 19% of the bank's loan book as of FY17.

BBB – Main growth engine of the bank

Branch and Business Banking (BBB) focuses on SMEs and MSMEs clients with high-volume transaction banking requirements (in turn working capital) and contribute significantly to its relatively strong current account franchise. Further, it also focuses on the retail business of the bank. In urban locations, the bank targets credit cards, small enterprise loans and personal loans to salaried individuals. The bank also originates home loans for HDFC, India's largest housing finance company. The loan book of BBB segment comprises of 53% LAP (loan against property), 14% business loans, 13% credit cards, 5% personal loans and other smaller loans. The acquisition of the Royal Bank of Scotland (RBS) portfolio provided the bank with an access to a strong customer base and helped it to report stellar 67% CAGR in BBB's loan book over FY13–17. This business accounts for 18% of the loan book as of FY17 and is expected to be the growth engine for the bank in coming years. Moreover, RBL Bank recently entered into an agreement with Bajaj Finance Ltd. (BFL) for launching series of co-branded credit cards (CCs). The CCs will be offered to BFL's existing as well as new customers.

DB&FI – Expanding through carefully selected partners

This segment focuses on low-income households and includes certain other categories such as women borrowers and small farmers. The bank uses a group approach to such customers and lends through joint liability groups and self-help groups.

Apart from directly lending to individuals, the bank also lends to financial intermediaries such as MFIs, HFCs involved in affordable housing finance and NBFCs engaged in lending to MSMEs. RBL bank has adopted a multi-product strategy wherein it cross-sells remittances, savings deposits and insurance products in addition to loan products. Moreover, the bank invested in Swadhaar Finserv Private Ltd., a business correspondent (BC) engaged in offering products and services to inadequately served sections of businesses, households and enterprises. DB&FI's loan book grew at a robust pace of 55% CAGR over FY13-17 and constituted for 14% of the loan book as of FY17. Further, it has also recently acquired 10% stake in Utkarsh Micro Finance Private Limited (UMFI), a microfinance institution (MFI) with a small finance bank (SFB) license.

Multi-pronged distribution network

In the past five years, the bank has grown from a regional bank concentrated in the states of Maharashtra and Karnataka to a bank having a vast network of more than 200 branches across more than 18 Indian states and union territories. The bank expanded its branch network along the NH-8 belt, a national highway that connects Delhi to Mumbai via Gujarat and Rajasthan and the NH-4 belt connecting Mumbai to Chennai along Maharashtra, Karnataka, and Tamil Nadu. Further, the bank has entered exclusive partnership agreements with business correspondents to establish transaction points and provide remittance services. The bank has established more than 8,000 transaction points to enable migrant remittances, receipt of government subsidies, and Aadhar-based banking transactions.

Best in class asset quality

RBL bank's advances witnessed a CAGR of 58% over FY11-17 backed by both organic as well as inorganic business expansion strategy. Notably, the industry credit grew at a CAGR of ~13% in the same period. However, the bank's market share is still minuscule (~0.3%) despite such a strong growth over the past five years. Similar to advances, RBL bank's deposits grew at a robust pace of 60% over FY11-17 which were way ahead of the industry CAGR of 12.5%. Although the bank's deposits growth was well supported by current account and savings account (CASA) deposits (45% CAGR), however, it lagged the growth rate in term deposits (64% CAGR) over the same period. RBL bank has successfully maintained a vigorous asset quality on the back of robust risk management practices. The bank has invested in technology platforms to identify and monitor its risks. Besides, the bank is largely into working capital financing and has small exposure to stressed sectors. As a result, it has been able to maintain its asset quality amidst challenging macro environment. The bank's Gross non-performing assets (NPAs) stood at 1.0% and 1.2% as of FY16 and FY17, respectively whereas its Net NPAs stood at 0.59% and 0.64%, respectively.

Financial performance snapshot

RBL Bank's net advances continued to witness strong growth of 40% YoY in Q1FY18 mainly driven by higher growth (↑44% YoY) in non-wholesale loan book. The non-wholesale loan book growth was mostly driven by Business and Branch Banking (↑63% YoY) division. Wholesale loan book also grew at a strong pace of 37% YoY. Net interest income (NII) increased at a robust pace of 55% YoY on account of 69 bps YoY improvement in net interest margin (NIM) to 3.5% coupled with strong growth in advances. Net profit grew by 45% YoY mainly due to 122% YoY increase in provisions owing to higher slippages from the micro finance institutions (MFI) portfolio.

Balance Sheet (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Capital	293	325	375
Reserves and Surplus	1,937	2,665	3,960
Minority Interest	-	-	-
Deposits	17,099	24,349	34,588
Borrowings	6,963	10,536	7,980
Other Liabilities and Provisions	812	1,287	1,771
Total Liabilities	**27,105**	**39,161**	**48,675**
Cash And Balances	2,170	2,450	4,194
Investments	9,792	14,436	13,482
Advances	14,450	21,229	29,449
Fixed Assets	164	177	259
Other Assets	528	869	1,292
Total Assets	**27,105**	**39,161**	**48,675**

Profit & Loss Account (Standalone)

(Rs.Cr)	FY15	FY16	FY17
Interest Income	1,953	2,744	3,713
Interest Expense	1,397	1,925	2,492
Net Interest Income	**556**	**819**	**1,221**
Non Interest Income	403	491	755
Net Income	960	1,310	1,977
Operating Expenses	600	767	1,056
Total Income	2,356	3,235	4,469
Total Expenditure	1,996	2,692	3,548
Pre Provisioning Profit	**360**	**542**	**920**
Provisions	60	114	239
Profit Before Tax	300	428	681
Tax	93	136	235
Net Profit	**207**	**292**	**446**

Key Ratios (Standalone)

	FY15	FY16	FY17
P/E	70.6	53.1	40.5
P/BV	6.7	5.5	4.4
P/ABV	6.8	5.8	4.6
Dividend Yield (%)	0.2	0.3	0.4
CAR (%)	13.1	12.9	13.7
Gross NPA (%)	0.8	1.0	1.2
Net NPA (%)	0.3	0.6	0.6
NIM (%)	2.7	2.7	3.1
RoE (%)	9.8	11.2	12.2
RoA (%)	0.9	0.9	1.0

Indbank Merchant Banking Services Ltd.
I Floor, Khiviraj Complex I,
No.480, Anna Salai, Nandanam, Chennai 600035
Telephone No: 044 – 24313094 - 97
Fax No: 044 – 24313093
www.indbankonline.com

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