

16/02/2017

CMP: 407

Weight: 7%



RBL BANK

Thesis –

We at Stallion Asset have a consistent Investment Philosophy of buying Companies that can

- 1) Growth of more than 25%
- 2) Smart Management
- 3) Large Opportunity Size
- 4) Longevity of Growth

STOCK DATA

Market Cap (Rs. in Cr.)	15181
EPS (Diluted) FY2017 E	12
P/E 2017E	35
P/B	3.7
Promoter's Holding	-
52 Week High/Low	274-421
Shares Outstanding (in Cr.)	37.3

After a successful run up in the recent IPO Listing in August,2016 (we had recommended Strongly to subscribe), RBL Bank has yet again managed to post amazing numbers in Q3FY17 with advances growing at 46% YOY, NIMs improving to 3.38% (as against 3% in FY16) and controlled NNPA levels at 0.52%,Thus increasing our conviction in this stock.

Since the new management took over in 2010, the company has shown a robust growth of CAGR 62% (highest in the industry). Management has guided long term growth of 35% as per their vision 2020 and we believe that it is achievable.

We at Stallion asset believe that the stock will get re-rated on the back of consistent 35%+ loan growth.

KEY FINANCIALS (Rs. in Cr, where applicable)

Y/E March	2013	2014	2015	2016
Advances	6376	9835	14449	21229
NII	257.5	341.6	556.3	819.2
Gross NPA	0.4	0.8	0.8	1
Net NPA	0.1	0.3	0.3	0.6
ROAE	6.7%	5.1%	9.3%	11.2%
ROAA	1.1%	0.7%	1%	1%
NIM	3.2%	2.7%	3%	3%

Stallion's View on RBL?

RBL has asset size of 35,000 Crores and 197 branches, exactly where Yes bank (36000Cr in Asset and 197 Branches) and IndusInd Bank (35,000 Cr. in Assets and 210 Branches) were in 2010. We expect RBL to do an repeat of Yes bank and IndusInd Bank.

VALUATION: We believe that RBL will grow its loan book at 35%+ for the next 3-4 years, it trades at 3.7x FY2017 P/B and at 35x FY 2017 earnings. We expect profits to rise from 292 Crores in 2016 to 850-950 Crores by FY2020.

About RBL Bank

RBL Bank was originally incorporated as a small, regional bank in Maharashtra with two branches in Sangli and Kolhapur in 1943. It is one of the fastest growing private sector banks in the country. As of December 31, 2016, they have 215 branches, (of which 97 branches were located in Maharashtra in western region of India and 25 branches were located in Karnataka in south-western India) 374 ATMs spread across 16 Indian states and union territories serving over 2 million customers.

Today, the Bank offers specialised services under six business verticals namely: Corporate & Institutional Banking, Commercial Banking, Branch & Business Banking, Agribusiness Banking, Development Banking and Financial Inclusion, Treasury and Financial Markets Operations.(Products are discussed in detail later in the report.)

Why RBL Bank?

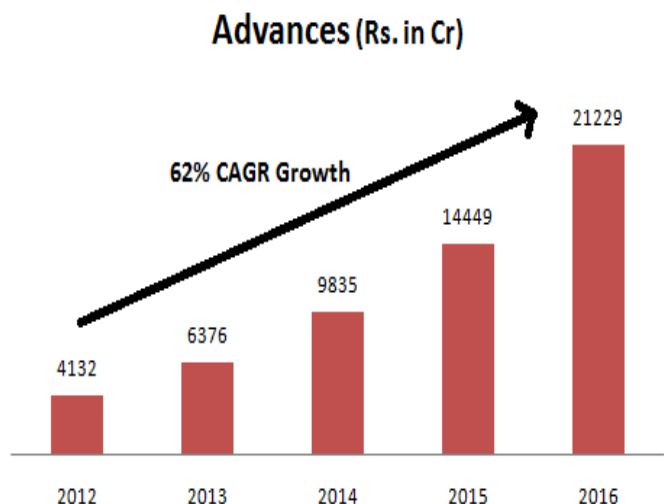
- Fastest Growing Bank
- Extremely Good Management
- Focus on Retail Book
- Controlled NPAs
- Operational Efficiency
- Return Ratios

Fastest Growing Bank –

RBL Bank is one of the fastest growing banks of the country with 46.3 % loan grown as on 31st December, 2016. In last 5 years the company has grown at CAGR of 62% which we term as growth phase post the management change in 2010. Going forward we expect a long term sustainable growth rate of 35% Plus for next 3-5 years.

On the basis of loan book size, RBL Bank is a very small bank compared to its peers. Hence scalability from here on is not going to be a problem for the company and opportunity remains large in the agri and retail space where the company is going to focus.

Company Name	Advances Growth (%)	Loan Book (Rs. in Cr.)
	As on 31 st December, 2016	
RBL Bank	46.3	26700
DCB Bank	24	14584
ICICI Bank	5	457469
Indusind Bank	25	102770
Kotak Mahindra Bank	12	129261
Yes Bank	38.7	117087
Axis Bank	10	347175
HDFC Bank	17.5%	495000



Extremely Good Management – “Bet on the Jockey”

Mr. Vishwavir Ahuja took over the company as the MD/CEO in June 2010 transforming the bank from traditional bank to modern bank. Prior to this company, he has worked in Bank of America from 2001. Management is ambitious, experienced and has proved its ability to perform in last 5 years (FY11-16).

	Pre- Management Change					Post Management Change					
	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Advances	500	500	600 23% CAGR	800	1200	1900	4100	6400	9800 62% CAGR	14400	21200
Gross NPA (%)	7.6	6.8	6 0% CAGR	2.1	2.3	1.1	0.8	0.4	0.8 30% CAGR	0.8	1
EPS (in Rs.)	0	0	2	3	2	0	3	4	3	7	9

RBL Bank has incentivised the senior leaders of the company by giving them with attractive ESOP scheme. Company has linked more than two – thirds of the total employees to the ESOP Scheme. These

	RBL	DCB	ICICI	Indusind	Kotak	Yes	Axis	HDFC
ESOPs as %age of sales	9.14%	3.06%	3.84%	2.66%		4.60%	1.49	5.09

ESOP schemes form 9% of the total equity of the company which is highest among the peer group.

“We believe ESOP add value to the company, and will help attract and retain top Quality talent.”

Vision 2020 – We have full faith and strongly believe vision 2020 is achievable.

	RBL Vision 2020	Actual 9M FY 17
Advances	30-35% CAGR	46%
CASA Ratio	0.75 - 1% increase every year	March 31, 2016: 18.6% December 31, 2016: 23.2%
Other Income %	~ 1/3 rd of Net Total Income	37.4%
Operational Efficiency	Cost/Income ratio of 51% - 52% by 2020	March 31, 2016: 58.6% December 31, 2016: 54.0%
Return Ratios	~ 1.50% RoA by 2020	March 31, 2016: 0.98% December 31 2016: 1.08%*

If Vision 2020 is achieved, RBL’s loan book would grow to 70,000 Cr. from 21229 In FY 2016 and will do profits between 1000-1100 Crores from 292 Crores in FY2016. We believe this target will be achieved.

Focus on Retail Book –

Company's focus on growing retail book and its presence in the entire agri value chain will boost their profitability as non-wholesale business yield higher (approx. 13%) as compared to 10% in the case of wholesale business.

Revenue Stream	Loan Book (9M17)	%age of total book (FY16)	GNPA (9MFY17)	GNPA (FY16)	AUM Growth		Criteria
					CAGR (FY13-16)	YOY (FY16)	
Wholesale (62%)							
C&IB	11,544	39%	0.33%	0.21%	44%	56%	Targets large companies with turnover over 1500 Cr or gross block over 750cr and public sector undertakings.
CB	5,034	21%	3.29%	2.96%	31%	31%	MSMEs: Turnover -250 Cr to 1500 Cr
Non-wholesale (38%)							
BBB	4,789	17%	1.29%	1.09%	74%	50%	SMEs : 35 Cr to 250 Cr and less than 35 Cr
AB	1,747	8%	0.67%	0.38%	102%	31%	Present in entire agri-value chain
DB&FI	3,659	15%	0.36%	0.26%	63%	51%	Lending to MFIs, HFC's by taking stakes in the companies and tie ups.

RBL's Revenues are divided into 5 main segments:

- Corporate and Institutional Banking(C&IB)** – It includes lending to large corporate at lower margins. As the company will increase lending in other areas, the exposure to the wholesale side will reduce going forward.
- Commercial Banking (CB)** – It focuses on small companies mainly SMEs and MSMEs.
- Branch and Business Banking (BBB)** – It includes personal loans, small enterprise loans, credit cards, working capital loans.
- Agriculture Business** – RBL is present in the entire agri value chain, thus financing the farmer requirements right from warehousing for crops to harvest of crops.
- Development Banking and Financial Inclusion (DB&FI)** – RBL lends to MFIs, HFCs and other NBFCs. It has also done partnerships with business correspondents and tie-ups with e-commerce companies.

RBL Bank has reduced its exposure of corporate and SME portfolio from 75% in FY13 to 60% in FY16. Its retail business has grown the fastest at 74% CAGR and accounts for 17% of advances as compared to 11% in FY13. The bank intends to focus more on the retail business, just like other private sector players.

Controlled NPAs –

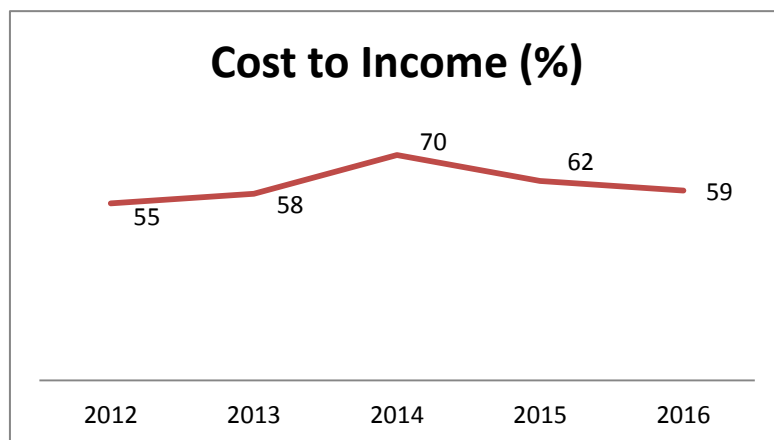
Company has managed to keep its NPAs under control with Gross NPA and Net NPA for Q3FY17 at 1.06% and 0.52% respectively. RBL has stayed away from lending to stressed sectors like steel, power, infra and given priority to retail lending.

Company	NPA Q3 FY17	Loan Book Exposure
RBL Bank	0.52	Wholesale
DCB Bank	0.74	Retail
ICICI Bank	3.96	Wholesale
Indusind Bank	0.39	Corporate
Kotak Bank	0.92	Corporate
Yes Bank	0.29	Corporate
Axis Bank	2.18	Retail
HDFC Bank	0.30	Retail

In the banking Industry, all banks (private as well as public sector) are facing problems on the NPA side. Banks with majority exposure to wholesale and corporate side are exposed to higher risk in terms of loan recovery as compared to retail. Few banks like RBL has been able to keep a check on NPAs in spite of high exposure to wholesale lending (62%) and on the other side ICICI Bank has not been able to perform well. We believe that RBL bank has the ability to lend selectively.

Operational Efficiency –

Every industry has to adopt the latest technology to keep itself ahead of its peers. **RBL is the one of the only bank which has been able to transform its business by investing more on experienced manpower, brand building and technology.** Cost to income ratio has come down steadily every year. **They are seeing traction on the digital banking front,** and to take a pie of this new market they have taken various initiatives like Partnership with Bajaj Finance, wallets and merchant acquisition to reach places where bank is not currently present and API banking to ensure faster disbursements of loans, instant fund transfers etc. **All these initiatives will help RBL to work more efficiently on the cost front and fulfil its vision 2020 of having cost to income ratio of 51-52%.**



	Cost to Income Ratio (%)
RBL Bank	53.34%
DCB Bank	60.07%
ICICI Bank	40.6%
Indusind Bank	47%
Kotak Bank	57.52%
Yes Bank	42%
Axis Bank	38.55%
HDFC Bank	44.28%



RBL Bank has one of the highest Cost to Income ratio because the bank is into aggressive expansion mode. We believe that as the company will achieve scale on the loan book, the cost to income ratio will come down in 2-3 years

Return Ratios –

	FY13	FY14	FY15	FY16
ROE	6.7	5.1	9.3	11.2
ROA	1.1	0.7	1	1

The Bank had a poor ROE of 11.2% in 2016, but we expect it to improve to 15% by FY18. There are massive costs for a bank, the cost are upfront whereas gains are on a later stage.

Stallion Assets View – We may face Anchoring bias, but this is a very important analysis that we did before recommending RBL bank. At the end of 2016, RBL had total assets of 35,000 Crores which similar to what IndusInd and yes bank had in 2010, Casa of 18% which is between IndusInd banks and Yes Banks CASA of 2010. The best stock price action happens when a bank grows from 30k Crores to 1 Lakh Crores of Asset base.

INDUSIND BANK			Yes Bank			RBL	
	FY 2010	FY 2016		FY 2010	FY 2016		FY 2016
Assets	35430	140227	Assets	36382	165263	Assets	35400
Growth	31.7%		Growth	35.3%		Growth	35%+Exp.
CASA	27%	36.53	CASA	10%	30%	CASA	18%

Yes bank and IndusInd bank have given 6x and 7.5x returns in last 6 years, RBL is in the same the same spot as both of them with 35000 Crores of Assets. In 2010 Yes bank had 197 Branches, whereas IndusInd at 210, at the End of FY 2016 RBL had 197 branches.

In March 2010, IndusInd had a market cap of 7,134 Crores and was trading at 3.3x Book whereas Yes bank had a market cap of 8840 Crores and was trading at 2.86x book. RBL is trading at 3.7x FY17 Book. We believe there is a possibility of a repeat of yes bank and IndusInd with RBL.

Risks

- RBL is extremely concentrated with 48% of its total 197 branches located in Maharashtra alone. Geographical diversification is needed to reduce the business risk.
- This is our bet on the Jockey rather than the franchise alone; we have a person risk in this company.

- Major Banks in the country are facing rising NPA problems. This is the biggest risk for a bank. Along with a healthy growth in advances they need to keep their NPA'S under control. We don't have a problem till NPA's are less than 2%
- Though RBL Bank has expanded its presence, the bank has not been able to garner low cost deposits. Current account at 11% and savings account at 7% taking the total CASA deposits to only 18%. These deposits have come down from 35% in FY11 on account of aggressive growth in term deposits. Due to higher cost of funding the NIMs of the company is lower than its peers. Management has guided for a 1% increase in CASA every year, we need to keep a watch closely.

Valuation-

RBL may not look cheap on trading parameters with FY2017 PE of 35x and P/B of 3.7x but a 40%+ growing franchise with great management team won't be available for cheap. We believe that the worst case valuation for RBL is 3x book if growth remains more than 30% and hence we have limited downside risk. The good thing about fast growing companies is that even if you buy it expensive initially they start looking cheap after a few quarters. We believe RBL is a compounder from these levels and we intend to hold it till growth remains above 30% or gross NPA doesn't go above 2%.

Bank Name	P/B	P/E	ROE	NIM (%)	NNPA	CASA (Dec,2017)
RBL Bank	3.7	35	12.6%	3.38	0.52%	23%
DCB Bank	1.8	17.3	10.72%	3.94	0.74%	26%
ICICI Bank	1.9	16.3	10.4%	3.12	3.96%	50%
IndusInd Bank	3.9	27	15.5%	4	0.39%	37%
Kotak Bank	3.7	29.5	13.5%	4.48	0.92%	42%
Yes Bank	3.6	17.8	22.1%	3.5	0.29%	33%
Axis Bank	2.1	33.9	33.9%	3.43	2.18%	48%
HDFC Bank	4	4	23%	4.1	0.3%	45%

Conclusion – We have been extremely bullish on financial space, and we believe RBL can give outlier returns. RBL is estimated to grow its loan book by 40%+ in FY 2018, but impact would be higher on the P&L as cost to income ratio decreases. RBL is the fastest growing bank, a tad bit expensive but we have full faith on that this management will deliver. We believe that RBL will not trade at less than 3x book if growth is more than 35%+. Our Stop loss for RBL is the demonetization low of about 330. So our upside is unlimited whereas our downside is 20%.

Analyst Position – Amit Jeswani and Family have no Positions

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