

RBL Bank Ltd.

17th Aug, 2016

Rating:



Issue Summary:

Price band (Rs)	224-225
Face Value (Rs)	10
Market Lot	65 shares
Opens	19 th Aug, 2016
Closes	23 rd Aug, 2016
Fresh Issue (Rs)	832.5cr
OFS	1.7 cr shares
Listing	BSE, NSE

Issue Break Up:

QIB portion	50%
NIB portion	15%
Retail portion	35%

Book Running Lead Managers:

➤ HDFC Bank Ltd.
➤ ICICI Securities Ltd.
➤ IDFC Securities Ltd.
➤ IIFL Holdings Ltd.
➤ SBI Capital Markets Ltd.

Registrar

➤ Link Intime India Pvt. Ltd.

Company & Business Profile

RBL Bank Ltd. began its operations in early 1943 as a small, regional bank in Maharashtra with two branches in Kolhapur and Sangli. The bank over the past six years has transformed itself from a traditional bank to a 'New Age' bank. As part of growth strategy the bank also acquired Indian businesses of royal Bank of Scotland including business banking, credit card and mortgage portfolio businesses in FY14. The acquisition helped bank expand its scale of operations and geographic presence. The distribution network of the bank as on 31st March, 2016 includes 362 interconnected ATM's, 197 branches primarily covering major commercial and urban centers and 3,871 employees.

Business segments for the bank include:

- **Corporate & institutional banking:** This segment caters to enterprises, corporate entities and large sized corporate. Aim is to be working capital bank for the clients focused on transactional businesses. As on March, 2016 this segment constituted 38.5% of total net advances.
- **Commercial banking:** This segment finances the business needs of SME's and mid-sized companies. Aim of this segment is to be a bank of choice for transaction banking needs of the clients viz. cash, trade and forex. As on March, 2016 this segment constituted 21.2% of total net advances.
- **Branch & business banking:** This is a new business segment established in 2015. It focuses on individual accounts & business accounts and uses the branch network to service both. As on March, 2016 this segment constituted 17.2% of total net advances.
- **Agribusiness banking:** This segment services the customers involved in agriculture and allied activities. The objective of this segment is to capture the banking requirements across the entire agri-value chain and create a loyal customer base by offering a complete bouquet of products and services. As on March, 2016 this segment constituted 8.3% of total net advances.
- **Development banking & financial inclusion:** This segment provides financial services to developing and rural parts of India, which have generally not had access to financial products and services. As on March, 2016 this segment constituted 14.8% of total net advances.
- **Treasury & financial markets operations:** Treasury operation is interface with the financial markets and consists primarily of advising corporate, institutional and commercial banking clients on domestic and cross-border transactions and risk management of exposures in relation to the clients' balance sheets.

Objects of the Issue

The issue proceeds would be utilized to augment Bank's Tier-I capital base to meet bank's future capital requirements which are expected to arise out of growth in bank's assets, primarily bank's loans/advances and investment portfolio, and to ensure compliance with Basel III and other RBI guidelines.

Investment Positives

- Bank operates through client-centric approach against product-focused approach resulting in growing brand recognition.
- Net interest income for the bank has grown from Rs 186 crs in Fiscal 2012 to Rs 819 crs in Fiscal 2016, representing a CAGR of 44.7% for the past four fiscal years.
- Bank has robust risk management system in place. Gross NPA for the bank for FY16 stood at 0.98 while net NPA stood at 0.59.

Concern

- Bank has low share of CASA to deposits on its balance sheet. As on FY16 CASA stood at 18.6%.
- CTI ratio for the bank stands high at 58.6 as on FY16.

**Outlook**

The Indian banking sector remains underpenetrated in comparison to other countries. Even though the reach and scope of banking has increased in India, the demand for financial services remains unsatiated. Only approximately 40% of adult population has formal bank accounts. Many of the measures and steps taken by the RBI in recent years reaffirmed its commitment to financial inclusion. The Government also has under taken measures to improve the statistics. Asset quality concerns resulting in risk aversion were considered to be one of the major factors underlying the current slowdown in credit. Public sector banks, which recorded higher NPA ratios, experienced a sharp decline in credit growth. On the other hand, private sector banks with lower NPA ratios posted higher credit growth. In the short-term, the stress on banks' asset quality remains a major challenge.

The bank has reported robust growth over the years. Advances for the bank grew at a CAGR of 50.5% over FY12-16 from Rs 4,132 crs to Rs 21,229 crs. Deposits grew from Rs 4,739 cr in FY12 to Rs 24,348 crs in FY16 at 50.5% CAGR. Net profit for the bank grew at a CAGR of 45.6% over FY12-16 to Rs 292 crs. Bank has also kept its asset quality intact along with its strong growth rates. Gross NPA for the bank for FY16 stood at 0.98 while net NPA stood at 0.59. NIM for the bank as on FY16 stood at 2.96 vs. 3.01 and 2.68 in FY15 and FY14 respectively. We expect the bank to continue its vigorous performance in the coming years with improving presence in unpenetrated regions in the country.

Valuation

The issue has been offered in a price band of Rs 224-225 per equity share. At the upper price band the stock is available at P/B of 2.4 (x) based on FY16 financials. The issue looks fairly valued against its peer group companies. We have "3 star" rating for the issue.

Peer Group Comparison (Mar 16, Rs Cr)

Company	Total Income	EPS	P/E (x)	P/B (x)	RoNW (%)	NAV	FV
RBL Bank Ltd.	3234	10	23.4	2.4	9.8	92	10
Yes Bank Ltd.	16263	60	19.6	3.6	18.4	327	10
Indusind Bank Ltd.	14878	40	29.1	4.0	13.2	291	10
City Union Bank Ltd.	3354	7	16.9	2.5	14.6	51	1
DCB Bank Ltd.	1919	7	14.7	1.6	11.2	61	10

Financials (Rs Cr)

Particulars	2014	2015	2016	Ratios	2014	2015	2016
Interest Earned	1352	1953	2744	Yield on Avg. Earning Assets (%)	10.6	10.6	9.9
Interest Expended	1010	1397	1925	Cost of Funds (%)	9.2	8.9	8.0
NII	342	556	819	Spread (%)	1.4	1.6	1.9
Other Income	261	403	491	NIM (%)	2.7	3.0	3.0
Operating Expense	424	600	767	CAR (%) Basel III	14.6	13.1	12.9
Net Profit	93	207	292	Cost-Income ratio (%)	70.4	62.5	58.6
CFO	-922	-2261	-4384	CASA (%)	20.4	18.5	18.6
Cash & equivalents	1179	1936	1531	GNPA (%)	0.8	0.8	1.0
Advances	9835	14450	21229	NNPA (%)	0.3	0.3	0.6
Deposits	11599	17099	24349	PCR (%)	65.7	68.3	55.9
Investment	6477	9792	14436	RoA (%)	0.7	1.0	1.0
Net Worth	2014	2229	2988	RoE (%)	5.4	9.6	11.3

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