

RBL Bank Ltd. (RBL) : Robust play in Indian Private Banking sector - "SUBSCRIBE"

17th Aug, 2016

RBL Bank Ltd ("RBL") erstwhile Ratnakar Bank has 73 year old history. The real defining transformation started from the year 2010 with key management from reputed global banks calling the shots. The Bank differentiates itself from other mid - sized private banks for having cultivated a customer centric culture with the goal of satisfying the clients complete banking needs rather than having a bouquet of products and services which is commendable. Today, RBL is one of the fastest growing Private Sector Bank, having wide distribution network with presence through 197 interconnected branches and 362 interconnected ATMs in 16 States and Union Territories in India serving over 1.9 million customers. Initially, 78 percent of the Bank's business was from the states like Maharashtra and Karnataka (95 of total 197 branches). Today, it has diversified into different geographies in India and both these states contribution has reduced to around 45% of total business. RBL offers a comprehensive range of Banking Products and Services customized to cater to the needs of Large Corporations, Small and Medium Enterprises ("SMEs"), Agricultural customers, Retail customers and Development Banking & Financial inclusion (low income) customers. The bank operates in different business segments:

- Corporate & institutional Banking (38.56% of total net advances) - This segment focuses on transactional non -fund based business.
- Commercial Banking (21.26% of total net advances) - Focuses on the finance and business needs of SMEs.
- Development Banking and Financial Inclusion (14.76% of total net advances) - Entering and expanding in this segment through carefully selected partners.
- Agribusiness banking (8.27% of total net advances) - Apart from core farm banking, also entering into rural areas through branchless banking.
- Branch and business banking (17.15% of total net advances) - This is a new business started in 2015, combining the retail banking and the branch business banking.

RBL bank had acquired the Indian business of The Royal Bank of Scotland (RBS) credit card & mortgage business in Fiscal 2014. This acquisition has added to its existing business, enabling it to expand its scale of operations and geographic presence. RBL has maintained high CASA deposits. As of 31st March 2016 the CASA deposits representing 18.46% of the total deposits consisted of savings deposits (7.22% of total) and current deposits (11.42% of total). RBL Posted a superior CAGR growth of 51% from FY2012 to FY2016 in its Advances Book. The Net Interest Margin has grown from 2.68% in FY14 to 2.96% in FY16. RBL has maintained a capital adequacy ratio of 12.94% and 13.13% in FY16 & FY15 respectively.

Investment Rationale and Recommendation

At the upper end of the price band of Rs. 225, the IPO is valued at 2.1x at Post issue P/BV which is cheap as compared to its immediate peers in mid - sized private banking space. With due consideration to factors like a) one of India's fastest growing private sector banks in the last six years, b) robust corporate governance framework as well as experienced management team, c) transformed from traditional bank into a 'New Age' bank, d) broad-based shareholder and capital base, e) leading and reputed Private Equity players invested which instills confidence on the operations and risk management of the Bank, f) focus on operational quality and scalability, g) strong growth in Loan Book with minimal NPAs (Gross NPAs below 1%), h) decent ROE of 11% and RoA of 1%, we recommend investors to "SUBSCRIBE" the issue.

Anchor book opens on	Aug 18, 2016
Issue date	Aug 19 - Aug 23, 2016
Finalisation of basis of allotment	Aug. 26, 2016
Initiation of refunds	Aug. 29, 2016
Credit of equity shares in demat a/c	Aug. 30, 2016
Listing	Aug. 31, 2016
Type of issue	Fresh Issue: Rs. 8,325 mn Offer for sale: 16,909,628 Equity Shares (Rs. 3,820 mn)
Face Value	Rs. 10
Price Band	Rs. 224 - Rs. 225 per share
Lot size	65 equity Shares & multiple of 65 equity shares thereafter
Issue structure	QIB: 50% Retail: 35% Non - Institutional: 15%
Post issue market cap	Rs. 81,383 mn at upper end of price band
Book Running Lead Managers	Axis Capital Ltd, Kotak Mahindra Capital, Citigroup Global, Morgan Stanley, HDFC Bank, ICICI Securities, IDFC Securities, IIFL Holdings, SBI Capital Markets
Registrar to the issue	Link Intime India Pvt. Ltd.

Y/e 31 Mar (Rs. mn)	FY16	FY15	FY14
Total income	27,443	19,531	13,516
Net Interest Income	8,192	5,564	3,416
NIM (%)	3	3	2.7
PAT	2,925	2,072	927
Equity Share Cap.	3,247.28	2,934.50	2,720.40
Networth	29,882	22,294	20,137
Total Deposits	243,487	170,993	115,986
Total Net Advances	212,291	144,498	98,351
EPS (Rs.)	3.01	4.17	3.61
Book Value (Rs.)	92.02	75.97	74.02
CASA Ratio (%)	18.6	18.5	20.4
Cost/Income (%)	58.6	62.5	70.4
Gross NPA (%)	0.98	0.77	0.79
Net NPA (%)	0.59	0.27	0.31
ROE (%)	11.3	9.6	5.4
ROA (%)	1.0	1.0	0.70
CAR (%)	12.9	13.1	14.6

Objects of the issue

- The objects of the Fresh Issue is to augment Bank's Tier - I capital base to meet future capital requirements
- To provide an exit to selling shareholders. Number of equity shares proposed to be sold by selling Shareholders are as follows:

Sr. No	Name of the selling shareholder	Number of equity shares offered
1.	Category I selling shareholders	3,879,070
2.	Category II selling shareholders	
	a) Beacon India Private Equity Fund	9,505,558
	b) GPE (India) Ltd.	3,525,000

Background – Company & Promoters

Incorporated on June 14, 1943, RBL Bank Limited ("RBL") a small Regional Bank in Maharashtra commenced their operation with 2 Branches in Kolhapur and Sangli. In August 1959, they were categorized as a "Scheduled Commercial Bank" within the meaning of the Reserve Bank of India Act, 1934. Though RBL has a 73-year operating history, they have transformed themselves in the past 6 years from a traditional Bank into a 'New Age' Bank while harnessing their heritage, relationships with customers and domain strengths.

Mr. Narayan Ramachandran is a non-Executive, non-Independent Director and the part-time Chairman of the Bank. He has wide experience in the field of Finance and Banking.

Mr. Vishwvir Ahuja is the Managing Director & CEO of the Bank. He has about 35 years of experience in the Banking and Financial Services sector.

Mr. Rajeev Ahuja is the Head – Strategy, Retail, Transaction Banking and Financial Inclusion, of the Bank. He has about 30 years of experience in Investment Banking and Financial Markets.

Top 10 shareholders as on July 29, 2016

Shareholder	%
CDC Group PLC	4.8
Asian Development Bank	4.3
International Finance Corporation	3.8
Norwest Venture Partners X FII - Mauritius	3.8
Faering Capital India Evolving Fund	3.6
Galileo Investments Ltd.	3.6
Cartica Capital 2 Ltd.	3.4
GPE	3.1
Unit Trust of India Investment Advisory Services Ltd. A/C Ascent India Fund III	3.1
Asia Capital Financial Opportunities Pte Ltd.	3.0
Total	36.5%

Source: RHP

Competitive strengths

1) Client focused approach to business resulting in growing brand recognition

RBL has created a customer-centric culture where they look to satisfy each client's complete banking needs by tailoring their products and services as required for the client rather than become a product-focused organization.

2) Robust multi-channel distribution system

RBL offer their services and products through a multi-channel distribution network- Branches and ATMs. Their delivery channels also include Internet Banking, Phone Banking and Mobile Banking. RBL has also developed a cost-effective Micro-

Payment and Branchless Banking solution by establishing collection points and transaction points. In addition, RBL will soon be deploying Micro-ATMs (new handheld tablets) that will focus primarily on DB&FI business in rural and semi-urban areas. During Fiscal 2015 and 2016, RBL opened 25 new branches across various states.

3) Partnerships to expand the reach in Rural markets

To develop the AB and DB&FI businesses, RBL is entering into partnerships to extend their reach in rural and semi-urban India and unbanked parts of urban and metro India. They have entered into exclusive partnership agreements with select business correspondents in relation to these businesses to originate client business – Spanning Loans, Savings Accounts, Insurance, etc. They are selecting partners with strong local relationships.

4) Growing Net Interest and Non-Interest Income

The Net Interest Income has grown from Rs.186.79 Crores in Fiscal 2012 to Rs.819.21 Crores in Fiscal 2016, which represents a CAGR of 44.71% for the past 4 fiscal years. This is primarily driven by an increase in the advances from Rs.4,132.27 crores in Fiscal 2012 to Rs.21,229.08 crores in Fiscal 2016. As focused on increasing the share of non-interest income, the share of the Non-Interest Income increased from 26.44% of the Net Total Income in Fiscal 2012 to 37.45% in Fiscal 2016.

5) Risk Management and Balance Sheet Focus

The risk management function covers Credit, Market and Operational Risks. RBL's policies are continuously reviewed and updated for changes in the regulatory and market environment. RBL has a dedicated risk management department, headed by a Chief Risk Officer and supported by specialized risk management teams for each business to ensure that they understand specific segmental and business risks and undertake daily risk management tasks including Risk Assessment, Measurement, Control and Reporting.

6) Modern and scalable information technology systems infrastructure

Technology is becoming the last mile connector to the customers as they increasingly opt for alternate delivery channels such as phone banking, mobile banking and internet banking. RBL strongly emphasize technology in their business as a means of improving the efficiency, reliability and competitiveness of their business operations.

7) Focus on operational quality and scalability

8) Increasing use of technology means that more and more customers interface with the operational platforms making it increasingly important for RBL to provide quality service across all customer touchpoints – Branches, ATMs, Phone Banking, Internet Banking and Email channels. RBL is therefore equipped with the technology, operational and support teams to underpin their business segments, branches and other distribution channels.

Business Strategy

1) Become a “Bank of Choice” by building relationships through trust and respect of the customers

Banking is no longer merely a single product or service but a complete, tailor-made comprehensive solution designed to address customer's needs based on a holistic understanding of their requirements. RBL has created a customer-centric culture where they look to satisfy the needs of their customers with quality products and services delivered in a timely and responsive manner to enhance customer experience.

2) **Continue to increase the CASA base** Achieving a strong and lasting CASA base is one of the core objectives of RBL. CASA is an integral part of every business segment's strategy with a focus on banking the entire wallet or balance sheet of the client.

In this respect, RBL has developed distinct strategies:

– **Corporate and Institutional Banking (“C&IB”) and Commercial Banking (“CB”)** – RBL aim to ensure that the clients increasingly undertake their supply chain, non-fund and payments and collections business through the Bank. The current technology and product architecture allows them to gain an increasing share of this business.

– **Branch and Business Banking (“BBB”)** –The core focus of the BBB strategy is to deal with clients who have a high need of intensive banking operations that is likely to lead to greater current account balances. RBL has developed specific industry solutions (IT/ITES, leather, hospitals etc.) that driven by knowledge of the sector, integrated packaging and seamless delivery. RBL has

launched their premium wealth offering – ‘Insignia’ – to cater to the savings, investments and insurance needs of affluent high net worth clients – either marketed standalone or cross-sold into CB, C&IB and BBB segments.

– **Agribusiness Banking (“AB”) and Development Banking and Financial Inclusion (“DB&IF”)** – RBL integrate their lending products with Savings, Insurances and Remittances to enable them to capture the entire transactional flows of the client. This has the secondary benefit of helping RBL keep track of the end-use of loans.

3) Client segment strategy

– **Increase the share of Agribusiness Banking (“AB”) and Development Banking and Financial Inclusion (“DB&IF”) businesses**

These businesses offer significant market opportunities from the current demand-supply perspective and RBL offer a competitive value proposition for the clients in these segments. In the AB segment, the strategy is to cover the entire agricultural value chain and create a loyal customer base by offering a complete bouquet of value added products and services. In the DB&FI segment, RBL aim to offer a need-based customer service approach.

– **Scale up the Branch and Business Banking (“BBB”) businesses**

The BBB businesses have the significant provider of CASA, Trade and Branch Services and a key source of Fee Income. In this segment RBL still has large untapped opportunities in the metro, urban and commercial centers of India. Their focus is to cover them in the short- to medium-term with increasing share in the customer wallet.

– Continue to build and leverage the strengths of the Corporate and Institutional Banking (“C&IB”) and Commercial Banking (“CB”) businesses

RBL intend to steadily grow these businesses in industries and segments that have good growth potential and build relationships among SMEs in the emerging segments, such as organized retail, e-commerce, logistics and consumer services.

4) Grow and leverage distribution network

RBL’s strategy is to expand their Branch, ATM and alternate delivery channels to grow their customer coverage and market share. As of March 31, 2016, their branch network included 197 branches. Currently RBL primarily cover the major commercial and urban centers. RBL plan to continue to grow their customer coverage and branch network extensively to cover important key urban and commercial centers as well as the rural, semi-urban and unbanked parts of India in line with their target customer segments.

5) Increase contribution of Non-Interest Income

An important and strategic focus for RBL is to grow their fee and commission-based income across all client segments. This is essential as it not only diversifies their revenue streams but also ensures greater stickiness of customers with the Bank. They can achieve this through:

- Scalable technology product platform capable of delivering these services in a consistent manner;
- A highly coordinated business team comprising relationship managers, product partners and service delivery partners that have aligned objectives to generate fee income; and
- Deep understanding of the client’s business and industry to develop appropriate banking solutions.

6) Introduce new products and services

To maintain or improve the competitive position, RBL need to continually identify and introduce new or improved products and services and tailor solutions that respond to changing customer demands in a timely and effective manner. RBL has recently launched a smart e-wallet platform that enables customers and merchants with convenient payment solutions through web, mobile or cards. In addition, they are planning to introduce a specialized suite of services called, “India Startup Club”, aimed at attracting startup customers.



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