

Higher NPAs, Opex dent earnings

BFSI - Banks ▶ Result Update ▶ **October 20, 2024**

TARGET PRICE (Rs): 325

RBL posted a miss in earnings (~33%) with PAT at Rs2.2bn/0.6% RoA, mainly due to dip in NIM to ~5%, higher staff cost (owing to pay hikes and ~800-900 in-house collection fleet added in Q2), and LLP (led by higher slippages in CC + MFI book). Credit growth also moderated to 15% YoY due to the bank's strategy to prune its low-yielding corporate book and slowdown in unsecured loan growth (including Cards and MFI); however, the bank remains focused on building its high yielding secured retail/SME book for better RaRoC. GNPA ratio inched-up QoQ to 2.9% due to transitional pain in the BAF-RBL card portfolio (as the bank took charge of collection) and MFI book (mainly in Bihar). Bank expects asset quality pain to ease over the next 6M. We trim our estimates for FY25-27 factoring in higher staff cost and LLP, but retain BUY with TP of Rs325 (valuing the bank at 1.1x Sep-26E ABV). Current valuations remain inexpensive at 0.7x Sep-26E ABV. We recommend RBL for investors ready to trade near-term pain for long-term gain as the ongoing transformation should result in a sustained RoA of >1%.

RBL Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	8,756	11,679	12,246	16,496	25,013
Loan growth (%)	17.0	19.6	15.3	17.9	19.9
NII growth (%)	24.1	20.9	13.2	18.5	19.6
NIM (%)	4.9	5.2	5.0	5.1	5.2
PPOP growth (%)	(20.0)	38.1	24.6	31.9	31.6
Adj. EPS (Rs)	14.6	19.4	20.2	27.1	41.2
Adj. EPS growth (%)	0.0	32.8	4.2	34.4	51.6
Adj. BV (Rs)	216.8	237.9	254.2	274.7	308.8
Adj. BVPS growth (%)	(5.4)	8.0	9.8	6.8	8.1
RoA (%)	0.8	0.9	0.8	1.0	1.2
RoE (%)	6.7	8.2	8.0	9.9	13.5
P/E (x)	14.1	10.6	10.2	7.6	5.0
P/ABV (x)	0.9	0.9	0.8	0.7	0.7

Source: Company, Emkay Research

Focus remains on building secured retail +SME book for sustained healthy RaRoC

Overall credit growth moderated for yet another quarter to 15% YoY/1.4% QoQ, primarily due to contraction in its low-yielding corporate book and deliberate slowdown in unsecured loan growth – mainly cards and MFI. New cards addition declined QoQ (~5.2mn-CIF vs 5.3mn in Q1), possibly due to rising stress in unsecured loans and the bank's strategy to reduce dependence on sourcing from BAF. MFI growth also has been on the back foot due to seasonal factors and rising stress in select states. On the other hand, deposit growth remains healthy at 20% YoY/6.5% QoQ, with CASA ratio increasing by ~100bps QoQ to 33.6%. However, higher slippages and lower disbursements in MFI, coupled with the absence of a one-off IT refund income in Q1 and interest reversal on NPAs, led to contraction in NIMs to ~5% (vs 5.7% in Q1). The bank reiterated its stance to reduce the share of Card + MFI from the current 32% to 25% over the years, mostly by higher growth in SME and the secured retail book (including mortgages, gold loans, and rural VF) to deliver sustained, healthy RaRoC.

Elevated stress in cards + MFI remains an irritant

Gross slippages remained elevated at Rs10.3bn/4.7% of loans, given rising stress in its cards portfolio (mainly due to transition of collection from BAF to bank) and industry-wide stress in the MFI book. Stress in non-BAF card remains well-contained and the bank remains hopeful of normalcy in the BAF-RBL Card portfolio soon. MFI collection efficiency declined in Sep-24 to 97.5% (vs ~99% levels in previous months) mainly due to flood-related issues in Bihar (30% portfolio share) and other states like Rajasthan, Punjab, Haryana, and Jharkhand. This, should normalize as the impact of floods in Bihar recede. The bank continues to hold contingent provision buffer for its cards + MFI + PL portfolio, apart from healthy specific PCR at >70%. The RBI has yet not instructed the bank to increase risk weights on its MFI portfolio, impact of which could otherwise be 40bps.

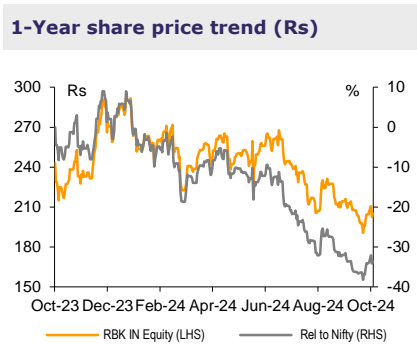
We retain BUY on RBL with TP of Rs325

We trim our earnings for FY25-27E factoring in higher staff cost (partly offset by lower vendor payout as collection shifts to bank) and LLP, but retain BUY (TP of Rs325 valuing the bank at 1.1x Sep-26E ABV) given inexpensive valuations at 0.7x Sep-26E ABV. We recommend RBL for investors ready to trade near-term pain for long-term gain as the ongoing transformation should result in a sustained RoA of >1%.

Target Price – 12M	Sep-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	58.3
CMP (18-Oct-24) (Rs)	205.3

Stock Data	Ticker
52-week High (Rs)	301
52-week Low (Rs)	190
Shares outstanding (mn)	607.7
Market-cap (Rs bn)	125
Market-cap (USD mn)	1,484
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	9
ADTV-3M (Rs mn)	1,931.3
ADTV-3M (USD mn)	23.0
Free float (%)	99.0
Nifty-50	24,854
INR/USD	84.1
Shareholding, Sep-24	
Promoters (%)	-
FPIs/MFs (%)	14.6/27.0

Price Performance				
(%)	1M	3M	12M	
Absolute	(2.9)	(15.4)	(15.0)	
Rel. to Nifty	(0.9)	(15.6)	(32.7)	



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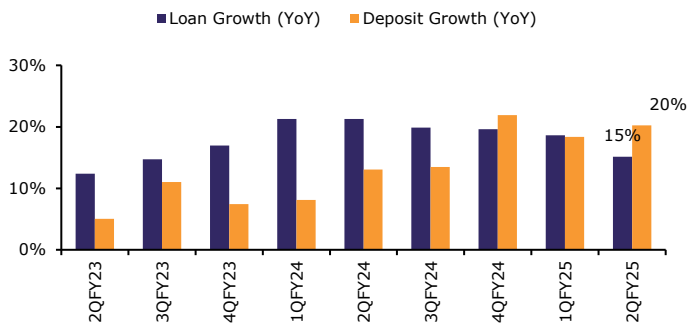
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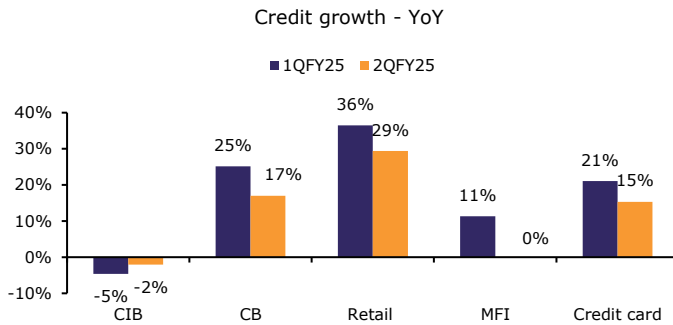
Story in Charts

Exhibit 1: Credit growth sees moderation yet again, but deposit growth remains strong...



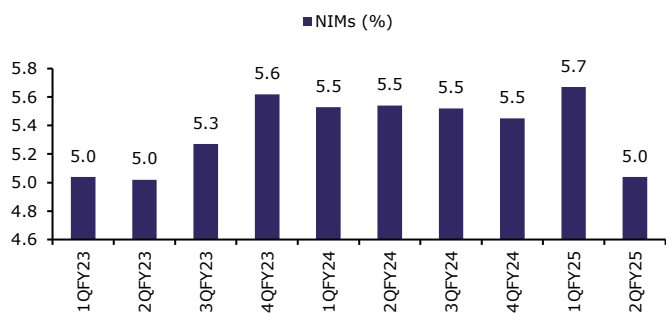
Source: Company, Emkay Research

Exhibit 2: ...primarily due to contraction in CB and unsecured book; however, secured retail growth remains healthy



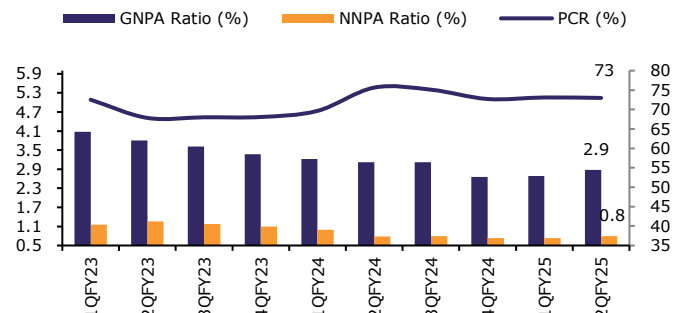
Source: Company, Emkay Research

Exhibit 3: NIMs contract in absence of one-off interest on IT refund



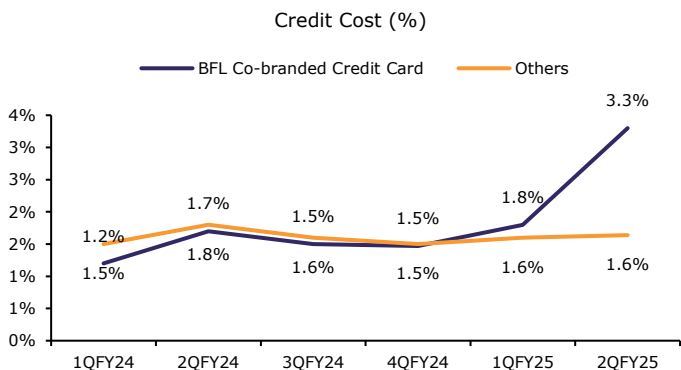
Source: Company, Emkay Research

Exhibit 4: NPAs remain elevated, given the elevated stress from the card book and MFI segment



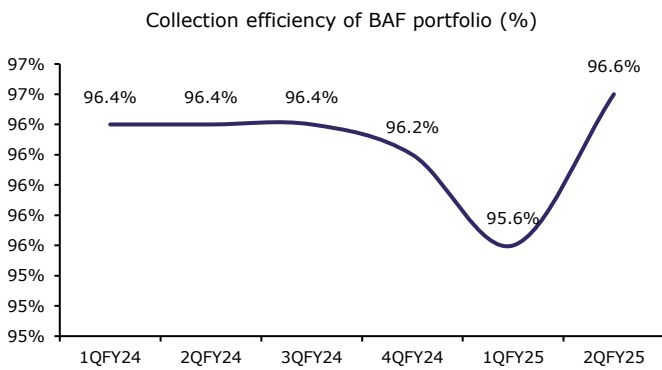
Source: Company, Emkay Research

Exhibit 5: Transition impacted credit costs in BFL Co-branded Cards portfolio...



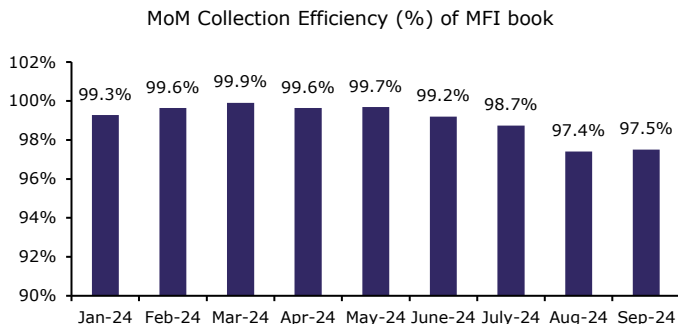
Source: Company, Emkay Research

Exhibit 6: ...while BFL Co-brand's early bucket collection efficiency are trending to pre-transition levels



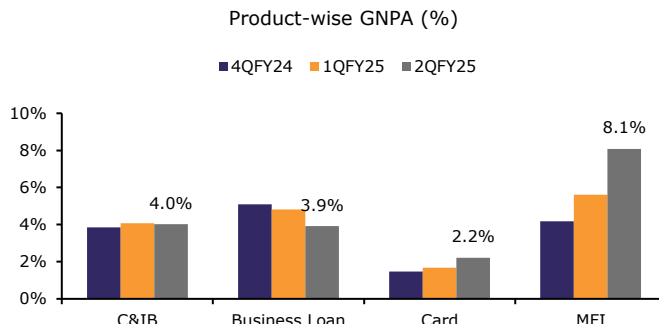
Source: Company, Emkay Research

Exhibit 7: Collection efficiency of MFI book has dropped mainly due to stress seen in select states



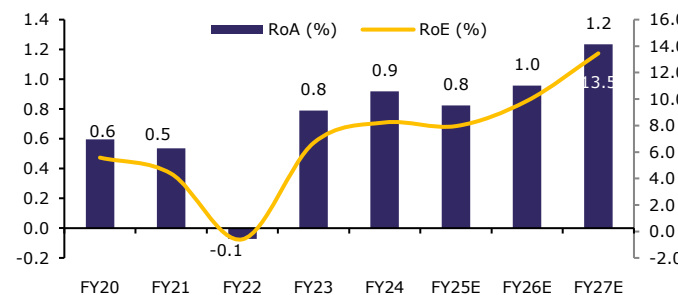
Source: Company, Emkay Research

Exhibit 8: Cards, MFI portfolio exhibit higher stress levels



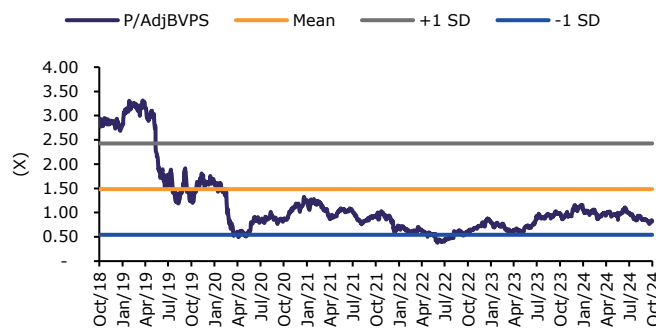
Source: Company, Emkay Research

Exhibit 9: We expect the bank's RoA to remain <1% in FY25E due to higher staff cost/LLP, but gradually improve on account of better risk-adjusted margins and lower LLP



Source: Company, Emkay Research

Exhibit 10: The stock currently trades at reasonable valuations



Source: Company, Emkay Research

Exhibit 11: Actuals vs Estimates (Q2FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	25,423	24,850	25,305	2%	0%	Higher other income led to a beat
PPOP	9,098	8,712	8,930	4%	2%	Higher staff cost offset by lower other opex led to a beat
PAT	2,225	3,327	3,077	-33%	-28%	Higher LLP due to stress in cards and MFI book led to a major miss

Source: Company, Emkay Research

Exhibit 12: Quarterly summary (Q2FY25)

(Rs mn)	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	30,080	31,914	33,391	34,962	35,309	17	1	123,943	144,773	17
Interest Exp	15,330	16,455	17,392	17,963	19,160	25	7	63,514	76,357	20
Net Interest Income	14,750	15,459	15,999	17,000	16,150	9	-5	60,429	68,416	13
Global NIMs (reported)	5.54	5.52	5.45	5.67	5.04	-50bps	-63bps	5.16	5.00	-16bps
Non-interest Income	7,044	7,776	8,755	8,055	9,274	32	15	30,429	37,523	23
Operating Expenses	14,484	15,582	15,883	16,464	16,325	13	-1	60,550	68,177	13
Pre Provisioning Profit	7,310	7,653	8,870	8,591	9,098	24	6	30,307	37,762	25
Provision & Contingencies	6,404	4,581	4,138	3,663	6,183	-3	69	17,785	21,649	22
PBT	906	3,071	4,732	4,928	2,915	222	-41	12,523	16,113	29
Income Tax Expense (Gain)	-2,035	740	1,206	1,213	690	-134	-43	844	3,867	358
Net Profit/(Loss)	2,941	2,331	3,526	3,715	2,225	-24	-40	11,679	12,246	5
Gross NPA (%)	3.12	3.12	2.65	2.69	2.87	-25bps	19bps	2.65	2.84	19bps
Net NPA (%)	0.78	0.80	0.74	0.74	0.79	1bps	6bps	0.74	0.78	5bps
Deposits (Rs bn)	898	927	1,035	1,014	1,080	20	7	1,035	1,234	19
Net Advances (Rs bn)	763	799	840	867	879	15	1	840	969	15

Source: Company, Emkay Research

Exhibit 13: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	105,928	105,939	0.0%	105,928	105,939	0.0%	151,142	152,674	1.0%
PPOP	38,948	37,762	-3.0%	38,948	37,762	-3.0%	65,838	65,541	-0.5%
PAT	14,930	12,246	-18.0%	14,930	12,246	-18.0%	26,613	25,013	-6.0%
EPS (Rs)	24.7	20.2	-18.1%	24.7	20.2	-18.1%	43.9	41.2	-6.3%
BV (Rs)	268.3	263.5	-1.8%	268.3	263.5	-1.8%	337.9	324.8	-3.9%

Source: Emkay Research

Exhibit 14: Key Assumptions

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	19.6	15.3	17.9	19.9
Deposit Growth	21.9	19.2	20.1	21.4
NIM	5.2	5.0	5.1	5.2
GNPA	2.7	2.8	3.0	3.1
Credit Cost	1.8	2.5	2.1	2.4

Source: Emkay Research

Exhibit 15: Ratios and Trends

	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25
Loans (Rs mn)	629,417	666,840	702,094	730,870	763,242	799,490	839,869	867,040	878,823
Loans YoY (%)	12.4	14.7	17.0	21.3	21.3	19.9	19.6	18.6	15.1
Loans QoQ (%)	4.4	5.9	5.3	4.1	4.4	4.7	5.1	3.2	1.4
Liability Profile (%)									
CASA	36.2	36.6	37.3	37.3	35.7	33.8	35.2	32.6	33.6
CA	14.8	15.7	17.4	17.7	16.5	15.0	17.4	14.6	15.3
SA	21.4	20.9	19.9	19.6	19.2	18.8	17.8	17.9	18.2
No. of Branches	507	516	517	520	528	538	545	545	550
NIM	5.02	5.27	5.62	5.53	5.54	5.52	5.45	5.67	5.04
Yield on Advances	11.46	11.96	12.60	12.80	14.03	14.00	14.12	14.20	13.54
Cost of Deposits	5.19	5.55	5.85	6.15	6.21	6.31	6.39	6.50	6.53
Asset Quality									
GNPA (%)	3.8	3.6	3.4	3.2	3.1	3.1	2.7	2.7	2.9
NNPA (%)	1.3	1.2	1.1	1.0	0.8	0.8	0.7	0.7	0.8
PCR (%)	67.8	68.0	68.1	69.6	75.6	75.1	72.7	73.1	73.0
Slippages (Rs mn)	8,120	6,080	6,810	5,550	5,410	6,660	6,800	7,200	10,260
Slippages - Annualized (%)	5.8	4.2	4.5	3.7	3.4	4.0	3.9	3.9	5.4
CAR (%)	17.4	17.0	17.0	16.7	16.5	15.7	16.2	15.2	15.9
Tier I (%)	15.9	15.5	15.3	15.1	15.2	14.6	14.4	13.8	14.2
ROE Decomposition on total assets (%)									
NII	4.4	4.7	4.8	4.9	4.9	4.9	4.8	5.0	4.6
Other Income (Ex Treasury)	2.0	2.2	2.3	2.2	2.2	2.3	2.5	2.2	2.4
Treasury	0.1	0.1	0.0	0.2	0.1	0.2	0.1	0.1	0.3
Opex	4.6	4.9	5.1	5.0	4.8	5.0	4.8	4.8	4.7
PPOP	1.9	2.1	2.1	2.2	2.4	2.4	2.7	2.5	2.6
Provisioning Cost	0.9	1.1	0.8	0.9	2.1	1.5	1.2	1.1	1.8
PBT	1.0	1.0	1.3	1.3	0.3	1.0	1.4	1.4	0.8
Tax	0.3	0.2	0.3	0.3	(0.7)	0.2	0.4	0.4	0.2
ROA	0.8	0.8	1.0	1.0	1.0	0.7	1.1	1.1	0.6
ROE	6.2	6.3	8.1	8.4	8.4	6.5	9.7	9.9	5.8

Source: Company, Emkay Research

RBL Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	96,764	123,943	144,773	166,394	193,113
Interest Expense	46,784	63,514	76,357	85,341	96,151
Net interest income	49,980	60,429	68,416	81,053	96,961
NII growth (%)	24.1	20.9	13.2	18.5	19.6
Other income	24,823	30,429	37,523	45,756	55,712
Total Income	74,803	90,857	105,939	126,809	152,674
Operating expenses	52,850	60,550	68,177	76,996	87,132
PPOP	21,954	30,307	37,762	49,812	65,541
PPOP growth (%)	(20.0)	38.1	24.6	31.9	31.6
Core PPOP	20,732	28,952	35,459	46,934	62,087
Provisions & contingencies	10,219	17,785	21,649	27,767	32,115
PBT	11,734	12,522	16,113	22,045	33,426
Extraordinary items	0	0	0	0	0
Tax expense	2,978	844	3,867	5,549	8,413
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	8,756	11,679	12,246	16,496	25,013
PAT growth (%)	(1,270.0)	33.4	4.9	34.7	51.6
Adjusted PAT	8,756	11,679	12,246	16,496	25,013
Diluted EPS (Rs)	14.6	19.4	20.2	27.1	41.2
Diluted EPS growth (%)	(1,268.5)	32.8	4.2	34.4	51.6
DPS (Rs)	1.5	2.0	2.5	3.0	3.5
Dividend payout (%)	10.3	10.4	12.4	11.1	8.5
Effective tax rate (%)	25.4	6.7	24.0	25.2	25.2
Net interest margins (%)	4.9	5.2	5.0	5.1	5.2
Cost-income ratio (%)	70.7	66.6	64.4	60.7	57.1
Shares outstanding (mn)	599.6	605.1	607.7	607.7	607.7

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	24,198.5	22,709.6	28,125.0	34,894.5	43,298.1
Net NPLs	7,725.4	6,199.7	7,593.8	10,119.4	12,989.4
GNPA ratio (%)	3.4	2.7	2.8	3.0	3.1
NNPA ratio (%)	1.1	0.7	0.8	0.9	0.9
Provision coverage (%)	68.1	72.7	73.0	71.0	70.0
Gross slippages	27,547.0	24,413.0	36,102.8	33,847.6	42,017.7
Gross slippage ratio (%)	3.8	2.9	3.7	2.9	3.0
LLP ratio (%)	4.6	1.3	2.1	2.5	2.1
NNPA to networth (%)	6.1	5.5	4.0	4.5	5.5
Capital adequacy					
Total CAR (%)	16.9	16.2	14.6	13.7	13.0
Tier-1 (%)	15.3	14.4	13.1	12.3	11.8
CET-1 (%)	15.3	14.4	13.1	12.3	11.8
RWA-to-Total Assets (%)	73.5	71.2	74.0	74.0	74.0
Miscellaneous					
Total income growth (%)	15.6	27.0	18.1	16.4	17.3
Opex growth (%)	45.9	14.6	12.6	12.9	13.2
Core PPOP growth (%)	(16.9)	39.7	22.5	32.4	32.3
PPOP margin (%)	18.1	19.6	20.7	23.5	26.3
PAT/PPOP (%)	39.9	38.5	32.4	33.1	38.2
LLP-to-Core PPOP (%)	49.3	61.4	61.1	59.2	51.7
Yield on advances (%)	11.9	13.1	13.0	12.9	12.7
Cost of funds (%)	5.0	5.9	6.0	5.7	5.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	5,996	6,051	6,077	6,077	6,077
Reserves & surplus	129,770	141,913	153,737	168,410	191,296
Net worth	135,766	147,964	159,814	174,487	197,373
Deposits	848,865	1,034,936	1,233,673	1,481,693	1,798,554
Borrowings	133,313	141,841	145,418	139,197	133,337
Interest bearing liab.	982,178	1,176,777	1,379,091	1,620,890	1,931,892
Other liabilities & prov.	40,818	59,581	51,858	60,302	68,225
Total liabilities & equity	1,158,762	1,384,322	1,590,762	1,855,679	2,197,489
Net advances	702,094	839,869	968,587	1,142,384	1,370,282
Investments	288,754	295,759	348,765	411,353	491,768
Cash, other balances	85,200	144,166	152,171	162,089	173,870
Interest earning assets	1,076,048	1,279,793	1,469,523	1,715,826	2,035,920
Fixed assets	5,740	5,324	6,548	8,010	9,760
Other assets	76,974	99,205	114,691	131,843	151,809
Total assets	1,158,762	1,384,322	1,590,762	1,855,679	2,197,489
BVPS (Rs)	226.4	245.6	263.5	287.1	324.8
Adj. BVPS (INR)	216.8	237.9	254.2	274.7	308.8
Gross advances	718,567	856,379	989,118	1,167,159	1,400,591
Credit to deposit (%)	82.7	81.2	78.5	77.1	76.2
CASA ratio (%)	35.3	37.4	35.2	33.7	33.8
Cost of deposits (%)	4.9	5.7	5.9	5.7	5.4
Loans-to-Assets (%)	60.6	60.7	60.9	61.6	62.4
Net advances growth (%)	17.0	19.6	15.3	17.9	19.9
Deposit growth (%)	7.4	21.9	19.2	20.1	21.4
Book value growth (%)	7.5	8.5	7.3	8.9	13.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	14.1	10.6	10.2	7.6	5.0
P/B (x)	0.9	0.8	0.8	0.7	0.6
P/ABV (x)	0.9	0.9	0.8	0.7	0.7
P/PPOP (x)	5.6	4.1	3.3	2.5	1.9
Dividend yield (%)	0.7	1.0	1.2	1.5	1.7
DuPont-RoE split (%)					
NII/avg assets	3.9	4.5	4.8	4.6	4.7
Other income	2.2	2.4	2.5	2.7	2.7
Fee income	1.4	1.5	1.6	1.7	1.8
Opex	4.8	4.8	4.6	4.5	4.3
PPOP	2.0	2.4	2.5	2.9	3.2
Core PPOP	1.9	2.3	2.4	2.7	3.1
Provisions	0.9	1.4	1.5	1.6	1.6
Tax expense	0.3	0.1	0.3	0.3	0.4
RoA (%)	0.8	0.9	0.8	1.0	1.2
Leverage ratio (x)	8.2	8.5	9.0	9.7	10.3
RoE (%)	6.7	8.2	8.0	9.9	13.5

Quarterly data

Rs mn, Y/E Mar	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
NII	14,750	15,459	15,999	17,000	16,150
NIM (%)	5.5	5.5	5.5	5.7	5.0
PPOP	7,310	7,653	8,870	8,591	9,098
PAT	2,937	2,328	3,526	3,715	2,225
EPS (Rs)	4.90	3.88	5.88	6.19	3.71

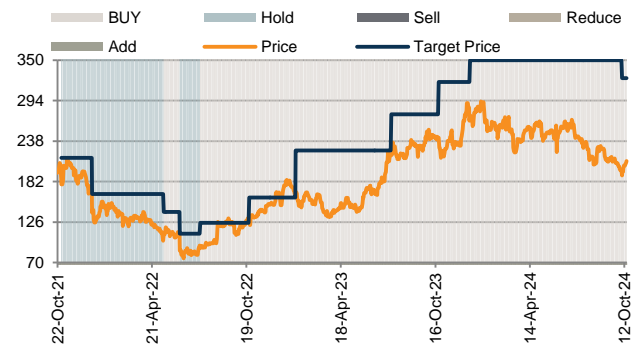
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
07-Oct-24	190	325	Buy	Anand Dama
21-Jul-24	239	350	Buy	Anand Dama
28-Apr-24	264	350	Buy	Anand Dama
21-Jan-24	267	350	Buy	Anand Dama
21-Dec-23	274	350	Buy	Anand Dama
30-Nov-23	233	320	Buy	Anand Dama
26-Oct-23	215	320	Buy	Anand Dama
22-Oct-23	243	320	Buy	Anand Dama
23-Jul-23	219	275	Buy	Anand Dama
23-May-23	145	225	Buy	Anand Dama
01-May-23	160	225	Buy	Anand Dama
09-Mar-23	158	225	Buy	Anand Dama
21-Jan-23	168	225	Buy	Anand Dama
24-Oct-22	126	160	Buy	Anand Dama
22-Aug-22	97	125	Buy	Anand Dama
22-Jul-22	91	125	Buy	Anand Dama
13-Jun-22	87	110	Hold	Anand Dama
13-May-22	109	140	Buy	Anand Dama
28-Jan-22	146	165	Hold	Anand Dama
27-Dec-21	139	165	Hold	Anand Dama
29-Oct-21	178	215	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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