

RBL Bank

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On course to redemption

- RBL reported a strong margin uptick – up 19bps QoQ/44bps YoY to 4.7%, but elevated opex and NPA provisions led to a slight miss on PAT at Rs2.1bn (vs. our est.: Rs2.2bn). However, the bank has guided for 1% exit RoA, as income growth outpaces opex and LLP too moderates with asset quality on the mend.
- Credit growth improved to 15% YoY/6% QoQ, mainly led by better traction in the retail/SME book. Despite disbursements being impacted for a week in Q3 due to technical upgrade, MFI AUM grew 10% QoQ and should further accelerate in the seasonally-strong 4Q. Deposit growth is also expected to accelerate (3Q at 11% YoY), as built-up franchisee and fintech partnerships deliver results.
- GNPA ratio improved by 19bps QoQ to 3.6% due to higher recoveries/w-offs and growth. Bank has indicated that the MFI stress flow from the restructured pool is largely done with, which should, thus, lead to moderate slippages. This should result in lower LLP and hence drive-up RoAs to 0.8-1.2%/7-12% over FY23E/FY25E from a loss in FY22.
- We retain BUY on the stock and upgrade our TP to Rs225 (from Rs160), rolling forward on 0.9x Dec-24E ABV, while taking comfort from improving growth/asset quality and RoE trajectory. The bank's regulatory compliance should also improve and so reduce the risk of regulatory friction. That said, managing liability amid rising competitive intensity will be closely tracked.

- Strong growth, coupled with asset re-pricing, led to sharp margin uptick:** Overall credit growth improved to 15% YoY/6% QoQ, mainly driven by retail/SME. Despite disbursements being impacted for a week in Q3 due to technical issues, MFI AUM grew by 10% QoQ and is likely to further improve hereon. Growth in the card business is also gradually accelerating, which could be a key growth & margin driver. That said, RBL would also focus on increasing the share of new business lines, including housing, vehicle loans (new/used), tractors and gold. The bank has been consuming internal excess liquidity which, coupled with asset re-pricing, led to sharp margin uptick – 19bps QoQ to 4.7%. However, RBL would now incrementally focus on driving-up deposit growth that, coupled with rising CoF, should have some effect on margins.
- NPA formation moderates; MFI pain largely behind:** Despite elevated slippages at Rs6.1bn/4.2% of loans (due to slippages from the RSA pool, including MFI/Cards), higher recoveries/w-offs led to a 19bps QoQ decline in the GNPA ratio to 3.6%. Specific PCR remained flat, albeit healthy at ~68%. The restructured book moderated to 1.4% of loans due to relapse into NPAs, with the balance being business loan (largely secured). As a strategy, the bank is likely to focus on recovery from old NPAs, including CCD, McLeod Russel, etc which should further improve NPA ratios.
- Outlook and valuations:** We retain BUY on the stock and upgrade our TP to Rs225 (earlier Rs160), rolling forward on 0.9x Dec-24E ABV, while taking comfort from the improving growth/asset quality and RoE trajectory (7-12% over FY23-25E from a loss in FY22). The bank's regulatory compliance should also improve and, thus, reduce the risk of regulatory friction. Key risks: Management attrition, sharp rise in CoF leading to margin derailment and continued asset quality stress in Cards/Business loans.

Financial Snapshot (Standalone)

(Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net income	56,716	63,673	68,622	79,321	94,521
Net profit	5,078	(747)	8,834	12,626	17,836
EPS (Rs)	9.2	(1.2)	14.7	21.1	29.8
ABV (Rs)	212.0	200.6	215.0	235.0	261.4
RoA (%)	0.5	(0.1)	0.8	1.0	1.2
RoE (%)	4.4	(0.6)	6.8	9.0	11.6
P/E (x)	18.5	NM	11.5	8.0	5.7
P/ABV	0.8	0.8	0.8	0.7	0.6

Source: Company, Emkay Research, NM: Not Meaningful

CMP	Target Price
Rs 170 as of (January 20, 2023)	Rs 225 (▲) 12 months
Rating	Upside
BUY (■)	32.7 %

Change in Estimates

EPS Chg FY23E/FY24E (%)	(0.4)/(0.8)
Target Price change (%)	40.6
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY23E	FY24E
Emkay	14.7	21.1
Consensus	14.9	19.7
Mean Consensus TP (12M)	Rs 145	

Stock Details

Bloomberg Code	RBK IN
Face Value (Rs)	10
Shares outstanding (mn)	600
52 Week H/L	189 / 74
M Cap (Rs bn/USD bn)	102 / 1.25
Daily Avg Volume (nos.)	172,68,180
Daily Avg Turnover (USD mn)	32.6

Shareholding Pattern Dec '22

Promoters	-%
FIIs	26.5%
DIIIs	20.2%
Public and Others	53.3%

Price Performance

(%)	1M	3M	6M	12M
Absolute	-	32	85	12
Rel. to Nifty	2	28	70	10

Relative price trend



Source: Bloomberg

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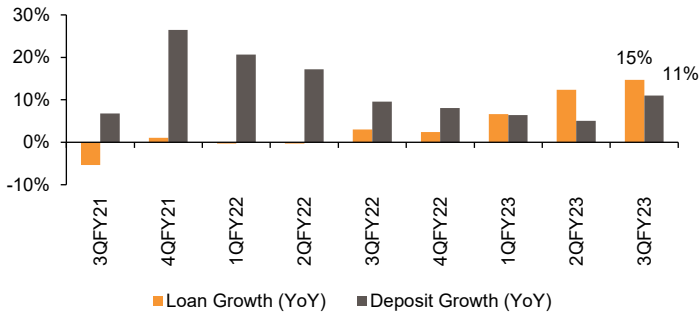
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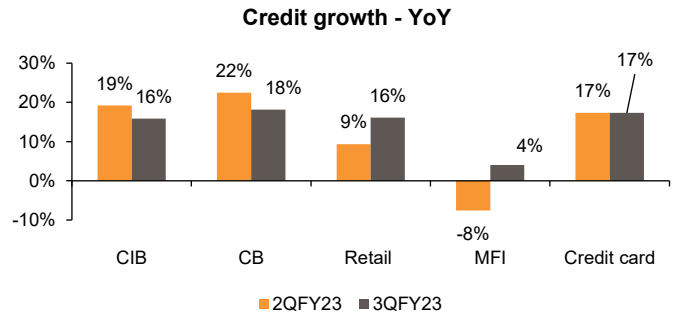
Story in charts

Exhibit 1: Overall credit growth improved in Q3...



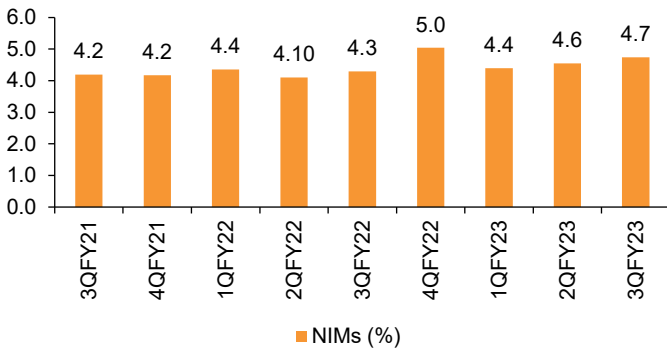
Source: Company, Emkay Research

Exhibit 2: ...mainly led by Retail and SME



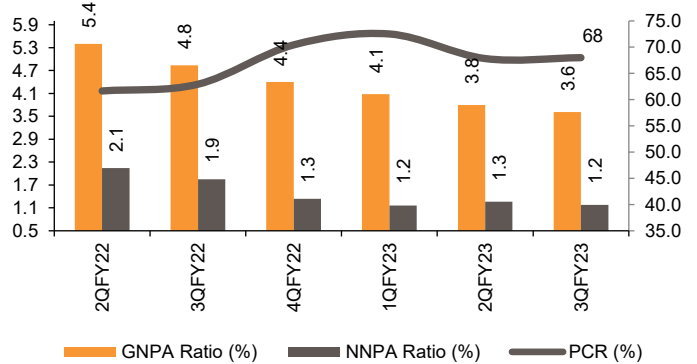
Source: Company, Emkay Research

Exhibit 3: NIM improved by 19bps, mainly due to higher yields



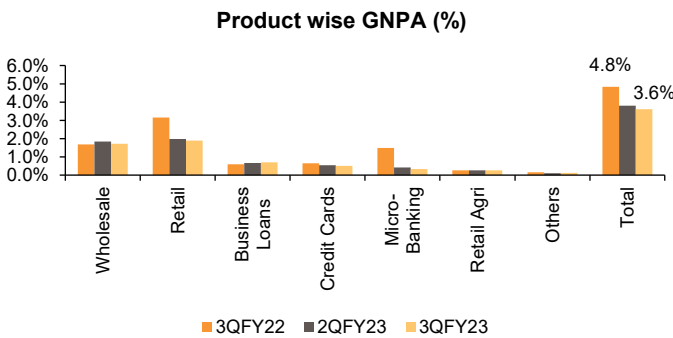
Source: Company, Emkay Research

Exhibit 4: GNPA% improved by 19bps due to lower slippages and higher recovery/w-offs, while PCR remained at 68% levels



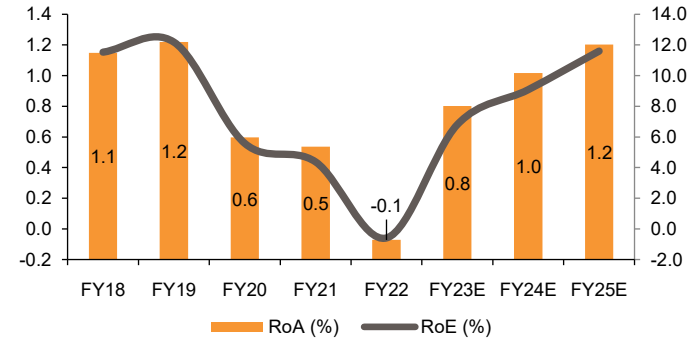
Source: Company, Emkay Research

Exhibit 5: NPA stabilizing across products and should continue to improve



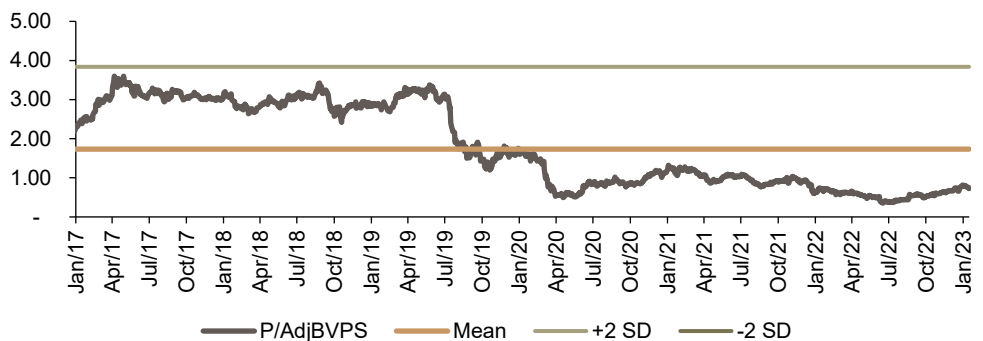
Source: Company, Emkay Research

Exhibit 6: Strong growth, improving asset quality and lower LLP should drive up the bank's RoA



Source: Company, Emkay Research

Exhibit 7: The stock currently trades at 0.7x one-year forward P/ABV (x)



Source: Bloomberg, Emkay Research

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Exhibit 8: Actual vs Estimates (3QFY23)

Rs mn	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	17,666	17,298	17,330	2%	2%	Better margins led to a beat
PPOP	5,672	5,381	5,414	5%	5%	Higher net income, partly offset by higher opex, led to a beat
PAT	2,088	2,211	2,245	-6%	-7%	Higher LLP resulted in a miss

Source: Company, Emkay Research

Exhibit 9: Quarterly summary

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	FY22	FY23E	YoY (%)
Interest Earned	20,442	21,310	20,893	21,757	23,686	16	9	81,758	91,744	12
Interest Exp	10,338	9,996	10,616	11,113	12,205	18	10	41,491	47,754	15
Net Interest Income	10,104	11,313	10,277	10,644	11,482	14	8	40,267	43,990	9
Global NIMs (reported)	4.30	5.04	4.40	4.55	4.74	44bps	19bps	4.17	4.30	13bps
Non-interest Income	5,830	5,114	6,136	5,833	6,184	6	6	23,405	24,632	5
Operating Expenses	9,626	9,853	11,122	11,354	11,994	25	6	36,220	46,716	29
Pre Provisioning Profit	6,308	6,574	5,291	5,124	5,672	-10	11	27,453	21,906	-20
Provision & Contingencies	4,239	4,007	2,530	2,415	2,927	-31	21	28,604	10,101	-65
PBT	2,069	2,568	2,761	2,709	2,745	33	1	-1,151	11,805	-1,126
Income Tax Expense (Gain)	508	589	750	693	655	29	-5	-404	2,971	-836
Net Profit/(Loss)	1,561	1,978	2,012	2,016	2,090	34	4	-747	8,834	-1,282
Gross NPA (%)	4.84	4.40	4.08	3.80	3.61	-123bps	-19bps	4.40	3.43	-97bps
Net NPA (%)	1.85	1.34	1.16	1.26	1.18	-67bps	-8bps	1.34	1.05	-29bps
Deposits (Rs bn)	736	790	792	794	817	11	3	790	875	11
Net Advances (Rs bn)	581	600	603	629	667	15	6	600	695	16

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY23E			FY24E			FY25E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	67,788	68,622	1.2%	79,542	79,321	-0.3%	94,706	94,521	-0.2%
PPOP	21,019	21,906	4.2%	25,073	25,367	1.2%	32,071	32,469	1.2%
PAT	8,867	8,834	-0.4%	12,729	12,626	-0.8%	17,862	17,836	-0.1%
EPS (Rs)	14.8	14.7	-0.4%	21.2	21.1	-0.8%	29.8	29.8	-0.1%
BV (Rs)	224.2	224.2	0.0%	243.5	243.3	-0.1%	270.3	270.0	-0.1%

Source: Emkay Research

Exhibit 11: Key assumptions

(%)	FY22A	FY23E	FY24E	FY25E
Loan Growth	2.4	15.8	19.7	22.3
Deposit Growth	8.0	10.7	17.5	19.7
NIM	4.2	4.3	4.4	4.4
GNPA	4.4	3.4	2.6	2.2
Credit Cost	4.6	1.5	1.1	0.9

Source: Emkay Research

Exhibit 12: Key ratios and trends

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23
Loans (Rs mn)	5,86,225	5,65,270	5,60,086	5,81,410	6,00,218	6,02,700	6,29,417	6,66,840
Loans YoY (%)	1.0	(0.3)	(0.3)	3.0	2.4	6.6	12.4	14.7
Loans QoQ (%)	3.9	(3.6)	(0.9)	3.8	3.2	0.4	4.4	5.9
Liability Profile (%)								
CASA	31.8	33.6	35.4	34.4	35.3	36.0	36.2	36.6
CA	13.3	12.7	12.7	14.7	14.6	15.4	14.8	15.7
SA	18.5	20.9	22.7	19.7	20.7	20.6	21.4	20.9
No. of Branches	429	392	445	463	502	502	507	516
NIM	4.17	4.36	4.10	4.30	5.04	4.40	4.55	4.74
Yield on Advances	11.20	11.60	11.30	11.30	12.22	11.22	11.46	11.96
Cost of Deposits	5.50	5.30	5.00	4.80	4.75	4.84	5.19	5.55
Asset Quality (%)								
GNPA	4.3	5.0	5.4	4.8	4.4	4.1	3.8	3.6
NNPA	2.1	2.0	2.1	1.9	1.3	1.2	1.3	1.2
PCR	52.3	60.9	61.7	62.9	70.4	72.5	67.8	68.0
Slippages (Rs mn)	31,430	13,420	12,170	7,660	6,190	6,530	8,120	6,080
Slippages - annualized	21.7	9.5	8.7	5.4	4.2	4.6	5.8	4.2
CAR	17.5	17.2	16.3	16.6	16.8	17.5	17.4	17.0
Tier I	16.6	16.1	15.5	15.8	16.2	16.0	15.9	15.5
ROE Decomposition (on total assets) - %								
NII	3.7	3.9	3.6	3.9	4.3	3.8	4.0	4.2
Other Income (Ex Treasury)	2.1	2.0	2.0	2.2	2.0	2.0	2.0	2.2
Treasury	0.1	0.6	0.3	0.1	(0.0)	0.3	0.1	0.1
Opex	2.9	3.4	3.2	3.7	3.8	4.2	4.2	4.4
PPOP	3.0	3.0	2.7	2.4	2.5	2.0	1.9	2.1
Provisioning Cost	2.5	5.5	2.5	1.6	1.5	0.9	0.9	1.1
PBT	0.4	(2.5)	0.2	0.8	1.0	1.0	1.0	1.0
Tax	0.1	(0.6)	0.0	0.2	0.2	0.3	0.3	0.2
ROA	0.3	(1.8)	0.1	0.6	0.8	0.8	0.7	0.8
ROE	2.4	(14.8)	1.0	5.1	6.3	6.3	6.2	6.3

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net interest income	37,876	40,267	43,990	49,778	59,192
Other income	18,840	23,405	24,632	29,543	35,329
Fee income	14,359	18,773	21,589	25,906	31,088
Net income	56,716	63,673	68,622	79,321	94,521
Operating expenses	27,546	36,220	46,716	53,953	62,053
Pre provision profit	29,170	27,453	21,906	25,367	32,469
PPP excl treasury	26,449	24,961	20,909	24,121	31,098
Provisions	22,279	28,604	10,101	8,495	8,633
Profit before tax	6,891	(1,151)	11,805	16,873	23,836
Tax	1,813	(404)	2,971	4,247	5,999
Tax rate	26	35	25	25	25
Profit after tax	5,078	(747)	8,834	12,626	17,836

Balance Sheet

Y/E Year End (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Equity	5,980	5,995	5,995	5,995	5,995
Reserves	1,20,645	1,20,187	1,28,421	1,39,848	1,55,886
Net worth	1,26,625	1,26,182	1,34,417	1,45,843	1,61,881
Deposits	7,31,213	7,90,065	8,74,648	10,28,134	12,30,820
Borrowings	1,04,959	1,03,630	95,340	1,00,107	1,05,112
Total liabilities	10,06,505	10,62,086	11,40,553	13,20,583	15,73,261
Cash and bank	67,047	1,31,111	68,178	71,586	75,166
Investments	2,32,304	2,22,744	2,46,258	2,73,143	3,13,966
Loans	5,86,225	6,00,218	6,95,248	8,32,226	10,18,105
Others	49,070	58,166	70,414	82,756	98,045
Total assets	10,06,506	10,62,086	11,40,553	13,20,583	15,73,261

Key Ratios (%)

Y/E Year End	FY21	FY22	FY23E	FY24E	FY25E
NIM	4.3	4.2	4.3	4.4	4.4
Non-ll/avg assets	2.0	2.3	2.2	2.4	2.4
Fee income/avg assets	1.5	1.8	2.0	2.1	2.1
Opex/avg assets	2.9	3.5	4.2	4.4	4.3
Provisions/avg assets	2.3	2.8	0.9	0.7	0.6
PBT/avg assets	0.7	(0.1)	1.1	1.4	1.6
Tax/avg assets	0.2	0.0	0.3	0.3	0.4
RoA	0.5	(0.1)	0.8	1.0	1.2
RoAE	4.4	(0.6)	6.8	9.0	11.6
GNPA (%)	4.3	4.4	3.4	2.6	2.2
NNPA (%)	2.1	1.3	1.1	0.8	0.7

Per Share Data (Rs)	FY21	FY22	FY23E	FY24E	FY25E
EPS	9.2	(1.2)	14.7	21.1	29.8
BVPS	228.8	210.7	224.2	243.3	270.0
ABVPS	212.0	200.6	215.0	235.0	261.4
DPS	0.0	0.0	1.0	2.0	3.0

Valuations (x)	FY21	FY22	FY23E	FY24E	FY25E
PER	18.5	NM	11.5	8.0	5.7
P/BV	0.8	0.8	0.8	0.7	0.6
P/ABV	0.8	0.8	0.8	0.7	0.6
P/PPOP	3.5	3.7	4.6	4.0	3.1
Dividend Yield (%)	0.0	0.0	0.6	1.2	1.8

Source: Company, Emkay Research

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Growth (%)	FY21	FY22	FY23E	FY24E	FY25E
NII	4.3	6.3	9.2	13.2	18.9
PPOP	6.0	(5.9)	(20.2)	15.8	28.0
PAT	0.4	(114.7)	(1,282.0)	42.9	41.3
Loans	1.0	2.4	15.8	19.7	22.3

Quarterly (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23
NII	10,104	11,313	10,277	10,644	11,482
NIM (%)	4.3	5.0	4.4	4.6	4.7
PPOP	6,308	6,574	5,291	5,124	5,672
PAT	1,558	1,976	2,010	2,014	2,088
EPS (Rs)	2.60	3.30	3.35	3.36	3.48

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	-	-	-	-	-
FII	28.9	28.2	26.1	27.2	26.5
DII	19.7	19.1	11.6	14.2	20.2
Public and Others	51.4	52.8	62.3	58.6	53.3

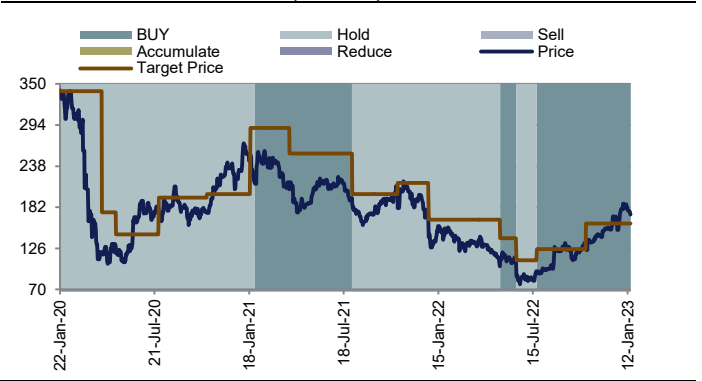
Source: Capitaline

RECOMMENDATION HISTORY (Rs/share)

Date	Closing Price	TP	Period	Rating	Analyst
24-Oct-22	127	160	12m	Buy	Anand Dama
22-Aug-22	98	125	12m	Buy	Anand Dama
22-Jul-22	92	125	12m	Buy	Anand Dama
13-Jun-22	88	110	12m	Hold	Anand Dama
13-May-22	111	140	12m	Buy	Anand Dama
28-Jan-22	148	165	12m	Hold	Anand Dama
27-Dec-21	141	165	12m	Hold	Anand Dama
29-Oct-21	181	215	12m	Hold	Anand Dama
03-Aug-21	187	200	12m	Hold	Anand Dama
05-Apr-21	206	255	12m	Buy	Anand Dama
29-Jan-21	214	290	12m	Buy	Anand Dama
20-Jan-21	254	290	12m	Hold	Anand Dama
29-Oct-20	175	200	12m	Hold	Anand Dama
29-Jul-20	177	195	12m	Hold	Anand Dama
08-May-20	119	145	12m	Hold	Anand Dama
11-Apr-20	121	175	12m	Hold	Anand Dama
23-Jan-20	339	340	12m	Hold	Anand Dama

Source: Company, Emkay Research

RECOMMENDATION HISTORY (Rs/share)



Source: Bloomberg, Company, Emkay Research

Emkay Rating Distribution

Ratings	Expected Return within the next 12-18 months.
BUY	Over 15%
HOLD	Between -5% to 15%
SELL	Below -5%

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