

RBL Bank

Refer to important disclosures at the end of this report

Recuperates; on-course to sculpt itself into a granular & sustainable retail bank

- RBL delivered in-line PAT at Rs2.7bn/1% RoA, per guidance, on the back of continued margin uptick (up 27bps QoQ to 5%) and contained LLP. Going forward, the bank has guided for steady improvement in RoA (+10-20bps p.a./RoE (100-150bps) over FY24-26E, with clear focus on building itself into a granular retail bank.
- Credit growth improved to 17% YoY/5% QoQ, mainly led by healthy disbursements in the retail/SME book. MFI disbursements accelerated (up 70% QoQ), leading to 23% YoY growth, while card growth stood at 24% YoY. Bank guides for +20% CAGR over FY24-26E, with retail share at 60-65% and mainly led by growth in core retail portfolios (Card + MFI + BB) and the relatively-new segments of HL/AFH, VF, Gold and MSME.
- Bank believes that the MFI stress-flow is largely behind, while card portfolio stress remains within acceptable levels. Lumpy wholesale stress, too, is largely behind, and the bank would look for some resolutions in the medium term. Factoring-in the better growth trajectory, margin/fee delivery and lower LLP, we expect the bank's RoA/RoE to improve to 1.3%/13% from 0.8%/7%, without factoring any capital dilution, which we believe the bank may require to achieve the guided growth trajectory.
- The stock is currently trading at lower valuations of 0.7x FY24E ABV/0.6x FY25E ABV, largely ignoring the broader recovery and growth potential under the new management. We retain BUY with TP of Rs225/share, based on 0.9x FY25E ABV.

- Growth coupled with asset re-pricing led to continued margin uptick:** Overall credit growth improved to 17% YoY/5% QoQ, mainly led by healthy disbursements in the retail/SME book. MFI disbursements accelerated (up 70% QoQ), leading to 23% YoY growth, while card growth was at 24% YoY. Overall deposit growth remains relatively moderate at 7% YoY/4% QoQ; thus, the bank would incrementally focus on accelerating retail deposit growth as well. Amid moderate deposit growth, the bank dipped into excess liquidity on the balance sheet, leading to drop in LCR to 126%. This, coupled with strong growth mainly led by retail (Cards/MFI) and asset re-pricing, resulted in continued uptick in margin (+ 27bps QoQ) to 5%. Bank guides for +20% CAGR over FY24-26E, with retail share at 60-65% and mainly led by growth in core retail portfolios (Card + MFI + BB) and the relatively-new segments of HL/AFH, VF, Gold and MSME. This should support margin/fee trajectory in FY24-26E, leading to healthy core-profitability.
- NPA formation to moderate, as MFI/Card stress eases:** Despite elevated slippages at Rs6.8bn/4.5% of loans higher recoveries/w-offs, led to a 24bps QoQ decline in the GNPA ratio to 3.4%. Specific PCR remained flat, yet healthy at ~68%. The restructured book moderated to 1.2% of loans, due to relapse into NPAs, with the balance being business loan (largely secured). Bank believes that MFI stress flow is largely behind, while card portfolio stress remains within acceptable levels. Lumpy wholesale stress too is largely behind and would look for some resolutions, like CCD, McLeod Russell and so on, in the medium term.
- We retain BUY:** Factoring-in the better growth trajectory, margin/fee delivery and lower LLP, we expect the bank's RoA/RoE to improve to 1.3%/13% from 0.8%/7%, without considering any capital dilution, which we believe the bank may require to achieve the guided growth trajectory. We retain BUY on the stock, with a TP of Rs225/share based on 0.9x FY25E ABV. **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)	FY22	FY23	FY24E	FY25E	FY26E
Net income	63,673	69,409	81,644	96,239	1,16,017
Net profit	(748)	8,827	12,701	17,466	22,769
EPS (Rs)	(1.2)	14.7	21.2	29.1	38.0
ABV (Rs)	200.6	216.8	237.5	264.0	297.5
RoA (%)	(0.1)	0.8	1.0	1.2	1.3
RoE (%)	(0.6)	6.7	9.0	11.3	13.1
P/E (x)	(129.5)	11.0	7.6	5.6	4.3
P/ABV (x)	0.8	0.7	0.7	0.6	0.5

Source: Company, Emkay Research

CMP	Target Price
Rs 162 as of (April 30, 2023)	Rs 225 (■) 12 months
Rating	Upside
BUY (■)	39.1 %

Change in Estimates

EPS Chg FY24E/FY25E (%)	0.6/(2.1)
Target Price change (%)	-
Target Period (Months)	12
Previous Reco	BUY

Emkay vs Consensus

EPS Estimates		
	FY24E	FY25E
Emkay	21.2	29.1
Consensus	20.1	24.5
Mean Consensus TP (12M)	Rs 167	

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)	97 / 1.19
Daily Avg Volume (nos.)	84,61,704
Daily Avg Turnover (USD mn)	15.6

Shareholding Pattern Mar '23

Promoters	-%
FIIs	22.3%
DIIIs	20.1%
Public and Others	57.6%

Price Performance

(%)	1M	3M	6M	12M
Absolute	20	7	18	34
Rel. to Nifty	12	5	16	28

Relative price trend



Source: Bloomberg

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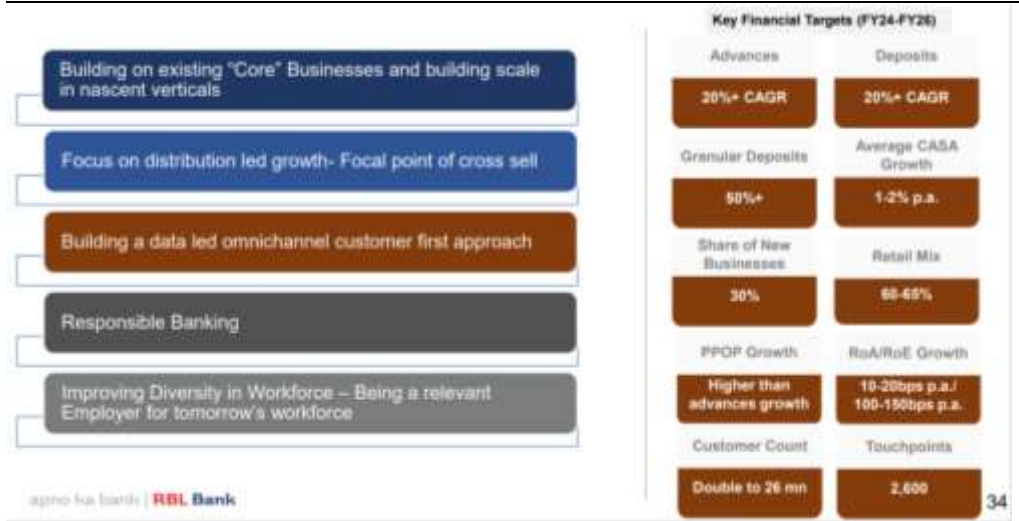
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Story in charts

Exhibit 1: RBL unveiled its 3-year business strategy – FY24-26



Source: Company, Emkay Research

Exhibit 2: Growth in new products will lead to product diversification

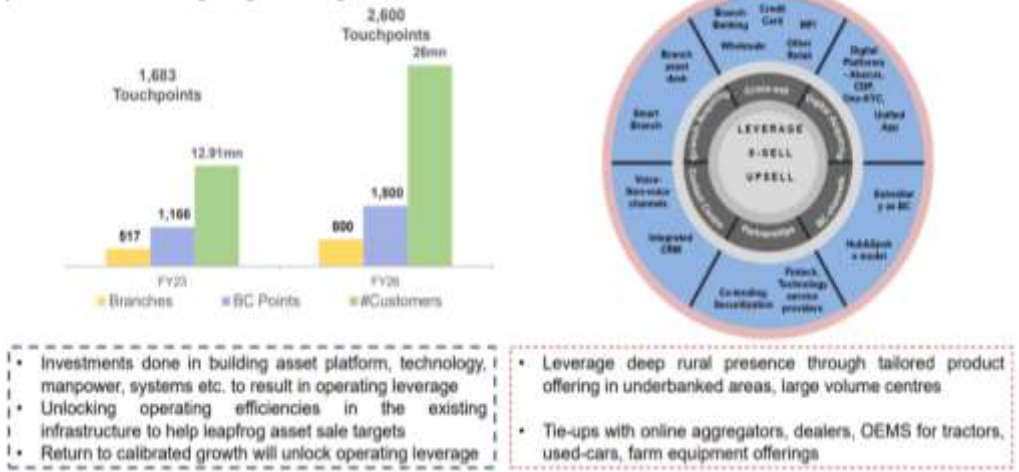
New Products and Channels Driving Diversification..



Source: Company, Emkay Research

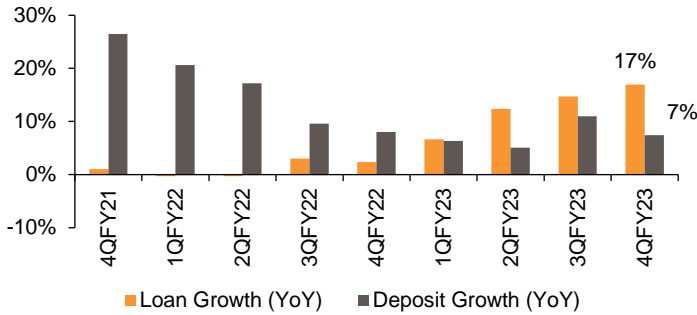
Exhibit 3: Bank will be leveraging existing operating investments

Asset/liability cross sell/upsell through branches and BC touchpoints; dedicated branch sales team for multiple products enabled through targeted lead generation



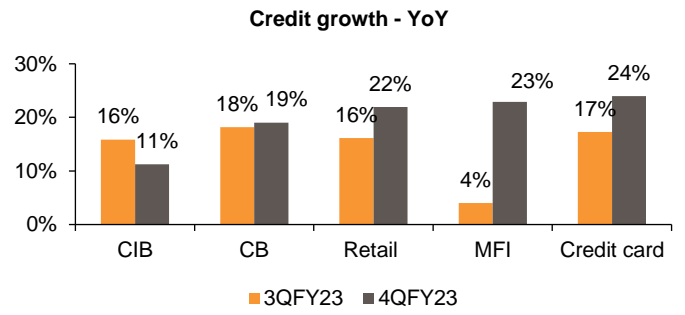
Source: Company, Emkay Research

Exhibit 4: Credit growth continued to improve in Q4...



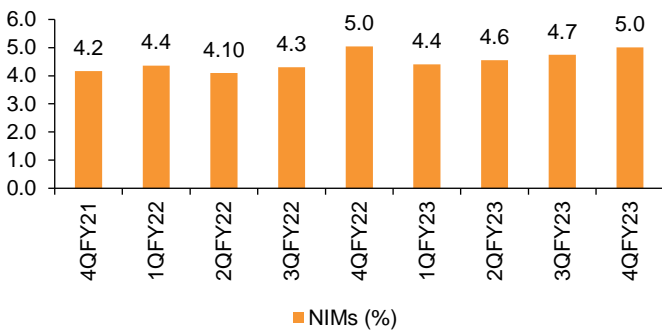
Source: Company, Emkay Research

Exhibit 5: ...mainly led by Retail/SME and MFI



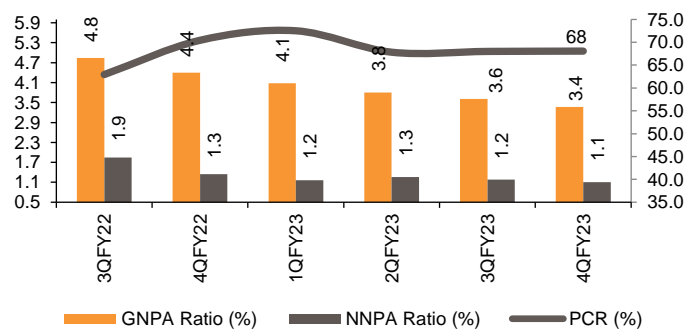
Source: Company, Emkay Research

Exhibit 6: NIM improved by 27bps on the back of better yields



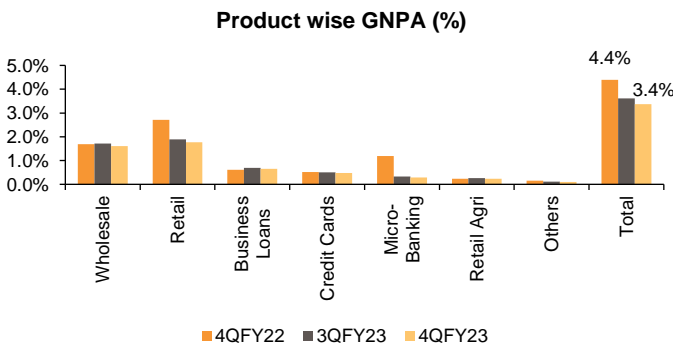
Source: Company, Emkay Research

Exhibit 7: GNPA improved by 24bps due to higher recovery/w-offs, while PCR remained at 68%



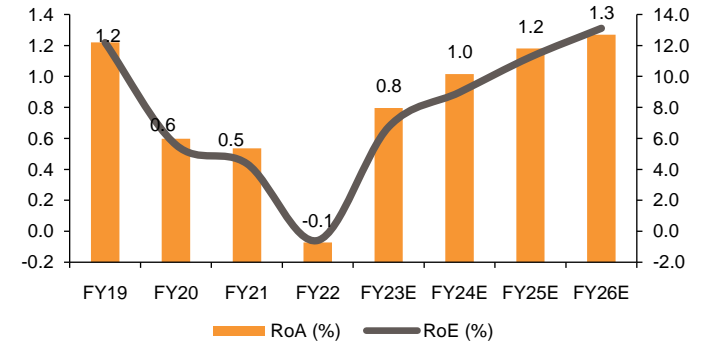
Source: Company, Emkay Research

Exhibit 8: NPA is seen stabilizing across products and should continue to improve



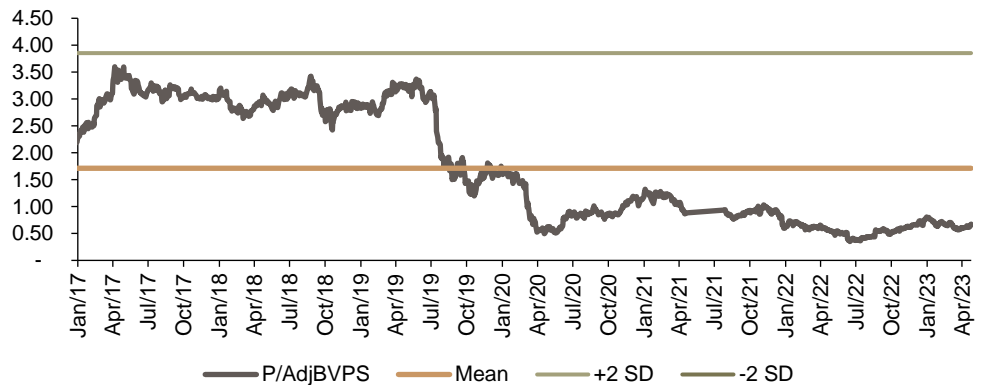
Source: Company, Emkay Research

Exhibit 9: Strong growth, improving asset quality and lower LLP should drive up the bank's RoA



Source: Emkay Research

Exhibit 10: The stock currently trades at 0.7x one-year forward P/ABV (x)



Source: Bloomberg, Emkay Research

Exhibit 11: Actual vs estimates (4QFY23)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	18,853	18,565	18,951	2%	-1%	Higher margins led to a beat
PPOP	5,938	6,319	6,450	-6%	-8%	Higher than expected opex led to a miss
PAT	2,710	2,722	2,656	0%	2%	Lower LLP led to largely in-line PAT

Source: Company, Emkay Research

Exhibit 12: Quarterly summary

(Rs mn)	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	21,310	20,893	21,757	23,686	24,962	17	5	91,299	1,11,914	23
Interest Exp	9,996	10,616	11,113	12,205	12,850	29	5	46,784	60,727	30
Net Interest Income	11,313	10,277	10,644	11,482	12,112	7	5	44,515	51,187	15
Global NIMs (reported)	5.04	4.40	4.55	4.74	5.01	-3bps	27bps	4.32	4.44	11bps
Non-interest Income	5,114	6,136	5,833	6,184	6,741	32	9	24,894	30,456	22
Operating Expenses	9,853	11,122	11,354	11,994	12,915	31	8	47,384	55,590	17
Pre Provisioning Profit	6,574	5,291	5,124	5,672	5,938	-10	5	22,025	26,053	18
Provision & Contingencies	4,007	2,530	2,415	2,927	2,347	-41	-20	10,219	9,081	-11
PBT	2,568	2,761	2,709	2,745	3,591	40	31	11,805	16,973	44
Income Tax Expense (Gain)	589	750	693	655	880	49	34	2,978	4,272	43
Net Profit/(Loss)	1,978	2,012	2,016	2,090	2,711	37	30	8,827	12,701	44
Gross NPA (%)	4.40	4.08	3.80	3.61	3.37	-103bps	-24bps	3.37	2.53	-84bps
Net NPA (%)	1.34	1.16	1.26	1.18	1.10	-24bps	-8bps	1.10	0.77	-33bps
Deposits (Rs bn)	790	792	794	817	849	7	4	849	1,014	19
Net Advances (Rs bn)	600	603	629	667	702	17	5	702	840	20

Source: Company, Emkay Research

Exhibit 13: Revision in estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E
	Earlier	Revised	Change	Earlier	Revised	Change	Introduced
Net income	79,322	81,644	2.9%	94,357	96,239	2.0%	1,16,017
PPOP	25,368	26,053	2.7%	32,304	32,428	0.4%	43,055
PAT	12,626	12,701	0.6%	17,836	17,466	-2.1%	22,769
EPS (Rs)	21.1	21.2	0.6%	29.8	29.1	-2.1%	38.0
BV (Rs)	243.3	245.6	1.0%	270.0	272.3	0.8%	307.2

Source: Emkay Research

Exhibit 14: Key assumptions

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	17.0	19.6	22.4	24.1
Deposit Growth (%)	7	19.4	22.3	25.1
NIM (%)	4.3	4.4	4.3	4.3
GNPA (%)	3.4	2.5	2.1	2.0
Credit Cost (%)	1.9	1.3	1.1	1.1

Source: Emkay Research

Exhibit 15: Key ratios and trends

	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23
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	7,02,094
Loans YoY (%)	1.0	(0.3)	(0.3)	3.0	2.4	6.6	12.4	14.7	17.0
Loans QoQ (%)	3.9	(3.6)	(0.9)	3.8	3.2	0.4	4.4	5.9	5.3
Liability Profile									
CASA (%)	31.8	33.6	35.4	34.4	35.3	36.0	36.2	36.6	37.3
CA (%)	13.3	12.7	12.7	14.7	14.6	15.4	14.8	15.7	17.4
SA (%)	18.5	20.9	22.7	19.7	20.7	20.6	21.4	20.9	19.9
No. of Branches	429	392	445	463	502	502	507	516	517
NIM (%)	4.17	4.36	4.10	4.30	5.04	4.40	4.55	4.74	5.01
Yield on Advances (%)	11.20	11.60	11.30	11.30	12.22	11.22	11.46	11.96	12.60
Cost of Deposits (%)	5.50	5.30	5.00	4.80	4.75	4.84	5.19	5.55	5.85
Asset Quality									
GNPA (%)	4.3	5.0	5.4	4.8	4.4	4.1	3.8	3.6	3.4
NNPA (%)	2.1	2.0	2.1	1.9	1.3	1.2	1.3	1.2	1.1
PCR (%)	52.3	60.9	61.7	62.9	70.4	72.5	67.8	68.0	68.1
Slippages (Rs mn)	31,430	13,420	12,170	7,660	6,190	6,530	8,120	6,080	6,810
Slippages - annualized (%)	21.7	9.5	8.7	5.4	4.2	4.6	5.8	4.2	4.5
CAR (%)	17.5	17.2	16.3	16.6	16.8	17.5	17.4	17.0	17.0
Tier I (%)	16.6	16.1	15.5	15.8	16.2	16.0	15.9	15.5	15.3
ROE Decomposition (on total assets; %)									
NII	3.7	3.9	3.6	3.9	4.3	3.8	4.0	4.2	4.3
Other Income (Ex Treasury)	2.1	2.0	2.0	2.2	2.0	2.0	2.0	2.2	2.3
Treasury	0.1	0.6	0.3	0.1	(0.0)	0.3	0.1	0.1	0.0
Opex	2.9	3.4	3.2	3.7	3.8	4.2	4.2	4.4	4.6
PPOP	3.0	3.0	2.7	2.4	2.5	2.0	1.9	2.1	2.1
Provisioning Cost	2.5	5.5	2.5	1.6	1.5	0.9	0.9	1.1	0.8
PBT	0.4	(2.5)	0.2	0.8	1.0	1.0	1.0	1.0	1.3
Tax	0.1	(0.6)	0.0	0.2	0.2	0.3	0.3	0.2	0.3
ROA	0.3	(1.8)	0.1	0.6	0.8	0.8	0.7	0.8	1.0
ROE	2.4	(14.8)	1.0	5.1	6.3	6.3	6.2	6.3	8.1

Source: Company, Emkay Research

Key Financials (Standalone)**Income Statement**

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net interest income	40,267	44,515	51,187	59,355	71,713
Other income	23,405	24,894	30,456	36,884	44,304
Fee income	8,096	15,758	19,225	23,070	27,222
Net income	63,673	69,409	81,644	96,239	1,16,017
Operating expenses	36,220	47,384	55,590	63,811	72,962
Pre provision profit	27,453	22,025	26,053	32,428	43,055
PPP excl treasury	24,961	20,362	23,975	29,933	40,062
Provisions	28,605	10,219	9,081	9,087	12,627
Profit before tax	(1,152)	11,805	16,973	23,341	30,428
Tax	(404)	2,978	4,272	5,875	7,659
Tax rate	35	25	25	25	25
Profit after tax	(748)	8,827	12,701	17,466	22,769

Balance Sheet

Y/E Year End (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Equity	5,995	5,995	5,995	5,995	5,995
Reserves	1,20,187	1,29,770	1,41,272	1,57,239	1,78,210
Net worth	1,26,182	1,35,765	1,47,267	1,63,234	1,84,205
Deposits	7,90,065	8,48,865	10,13,571	12,39,292	15,50,540
Borrowings	1,03,630	1,23,013	1,35,314	1,55,611	1,78,953
Total liabilities	10,62,086	11,58,762	13,42,778	16,14,109	19,74,819
Cash and bank	1,31,111	62,381	65,500	68,775	72,213
Investments	2,22,744	2,88,755	3,07,695	3,59,520	4,27,620
Loans	6,00,218	7,02,094	8,39,952	10,27,737	12,75,394
Others	58,166	76,974	89,352	1,05,888	1,26,017
Total assets	10,62,086	11,58,762	13,42,778	16,14,109	19,74,819

Key Ratios (%)

Y/E Year End	FY22	FY23	FY24E	FY25E	FY26E
NIM	4.2	4.3	4.4	4.3	4.3
Non-ll/avg assets	2.3	2.2	2.4	2.5	2.5
Fee income/avg assets	0.8	1.4	1.5	1.6	1.5
Opex/avg assets	3.5	4.3	4.4	4.3	4.1
Provisions/avg assets	2.8	0.9	0.7	0.6	0.7
PBT/avg assets	(0.1)	1.1	1.4	1.6	1.7
Tax/avg assets	0.0	0.3	0.3	0.4	0.4
RoA	(0.1)	0.8	1.0	1.2	1.3
RoAE	(0.6)	6.7	9.0	11.3	13.1
GNPA (%)	4.4	3.4	2.5	2.1	2.0
NNPA (%)	1.3	1.1	0.8	0.6	0.6

Per Share Data (Rs)	FY22	FY23	FY24E	FY25E	FY26E
EPS	(1.2)	14.7	21.2	29.1	38.0
BVPS	210.7	226.4	245.6	272.3	307.2
ABVPS	200.6	216.8	237.5	264.0	297.5
DPS	0.0	1.5	2.0	2.5	3.0

Valuations (x)	FY22	FY23	FY24E	FY25E	FY26E
PER	(129.5)	11.0	7.6	5.6	4.3
P/BV	0.8	0.7	0.7	0.6	0.5
P/ABV	0.8	0.7	0.7	0.6	0.5
P/PPOP	3.5	4.4	3.7	3.0	2.3
Dividend Yield (%)	0.0	0.9	1.2	1.5	1.9

Source: Company, Emkay Research

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Growth (%)	FY22	FY23	FY24E	FY25E	FY26E
NII	6.3	10.5	15.0	16.0	20.8
PPOP	(5.9)	(19.8)	18.3	24.5	32.8
PAT	(114.7)	(1,279.5)	43.9	37.5	30.4
Loans	2.4	17.0	19.6	22.4	24.1

Quarterly (Rs mn)	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23
NII	11,313	10,277	10,644	11,482	12,112
NIM (%)	5.0	4.4	4.6	4.7	5.0
PPOP	6,574	5,291	5,124	5,672	5,938
PAT	1,976	2,010	2,014	2,088	2,710
EPS (Rs)	3.30	3.35	3.36	3.48	4.52

Source: Company, Emkay Research

Shareholding Pattern (%)	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	-	-	-	-	-
FII	28.2	26.1	27.2	26.5	22.3
DII	19.1	11.6	14.2	20.2	20.1
Public and Others	52.8	62.3	58.6	53.3	57.6

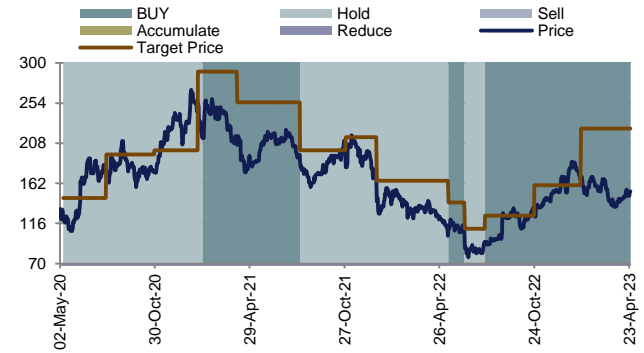
Source: Capitaline

RECOMMENDATION HISTORY - Details

Date	CMP (Rs/sh)	TP (Rs/sh)	Period	Rating	Analyst
09-Mar-23	160	225	12m	Buy	Anand Dama
21-Jan-23	170	225	12m	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - Trend



Source: Bloomberg, Company, Emkay Research

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