

RBL Bank

Simultaneous balance sheet recalibration poses a tall ask

RBL Bank (RBK) reported its highest-ever quarterly PAT led by healthy loan growth (+17% YoY) and stronger margins (5%), partly offset by elevated opex. Loan growth witnessed strong traction in retail credit (~54% of loans), led by credit cards/MFI and new segments (such as home loans, and tractors). Management continues to focus on the mobilisation of granular deposits reflecting in sequential improvement in CASA (+6% QoQ), but we watch out for sustained execution, given the tight liquidity environment and aggressive pricing. Management has guided for an aspirational business growth (+20% CAGR over FY23-26E), which we argue is a tall ask. Given RBK is in an investment phase, opex (branches, people, new businesses) and lagged deposit repricing are likely to keep return ratios muted; maintain REDUCE with revised TP of INR135 (0.6x Mar-25 ABVPS).

- Opex intensity dampens PPOP performance:** Despite a 31bps NIM reflation (Q4FY23: 5%) and steady loan growth (+17% YoY), elevated distribution opex (branches, people etc.) and investments in new businesses led to a 60bps spike in the cost-to-income ratio. Further, annualised gross/net slippages (4.2%/1.8%), primarily from the credit cards (35%) and MFI (10%) businesses, led to sustained elevated credit costs (116bps). Given RBL's core segments of operation and PCR<70%, we expect credit costs to be over 1.5% for FY24/25E.
- Targeted balance sheet granularity a challenge:** As part of its three-year plan, the management wishes to accelerate growth by building a higher share (30% of loans) of secured retail (housing and tractors) by FY26. Likewise, RBK aims to raise the share of granular deposits (ATS <20mn) to 50%, which we believe will be a challenge, given its relatively weak competitive positioning. Hence, we argue that a simultaneous recalibration of the balance sheet is a steep ask.
- Opex intensity, credit costs to remain elevated; maintain REDUCE:** RBK is exploring ways to reflate its NIMs through a change in loan mix towards high-yielding assets, and lower LCR; however, lagged deposit repricing is likely to cap any upside. RBK continues to invest in franchise-building, which will keep opex ratios elevated and drag the pace and extent of RoA reflation.

Financial summary

(INR bn)	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	FY22	FY23	FY24E	FY25E
NII	12.1	11.3	7.1%	11.5	5.5%	40.3	44.5	49.4	54.8
PPOP	5.9	6.6	-9.7%	5.7	4.7%	27.5	22.0	27.8	31.1
PAT	2.7	2.0	37.1%	2.1	29.7%	(0.7)	8.8	10.8	13.4
EPS (INR)	4.5	3.3	36.1%	3.5	29.4%	(1.2)	14.7	18.1	22.4
ROAE (%)						(0.6)	6.7	7.7	8.9
ROAA (%)						(0.1)	0.8	0.9	1.0
ABVPS (INR)						197.0	213.5	226.4	244.2
P/ABV (x)						0.8	0.8	0.7	0.7
P/E (x)						(130.1)	11.0	9.0	7.2

Change in estimates

(INR bn)	FY24E			FY25E		
	Old	New	Δ	Old	New	Δ
Net advances	780	798	2.3%	871	907	4.1%
NIM (%)	4.9	4.6	-36 bps	4.9	4.5	-44 bps
NII	49.9	49.4	-0.9%	55.7	54.8	-1.7%
PPOP	29.7	27.8	-6.4%	33.7	31.1	-7.8%
PAT	11.1	10.8	-2.4%	14.3	13.4	-6.1%
Adj. BVPS (INR)	224.1	226.4	1.0%	242.4	244.2	0.7%

Source: Company, HSIE Research

REDUCE

CMP (as on 28 Apr 2023)	INR 162
Target Price	INR 135
NIFTY	18,065
KEY CHANGES	OLD NEW
Rating	REDUCE REDUCE
Price Target	INR 131 INR 135
	FY24E FY25E
EPS %	-2.4% -6.1%

KEY STOCK DATA

Bloomberg code	RBK IN
No. of Shares (mn)	600
MCap (INR bn) / (\$ mn)	96/1,167
6m avg traded value (INR mn)	1,988
52 Week high / low	INR 189/74

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	5.8	16.9	30.9
Relative (%)	3.6	15.4	24.1

SHAREHOLDING PATTERN (%)

	Dec-22	Mar-23
Promoters	0.0	0.0
FIs & Local MFs	20.2	20.1
FPIs	28.9	30.1
Public & Others	50.8	49.8
Pledged Shares	0.0	0.0

Source : BSE

Pledged shares as % of total shares

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