

RBL BANK LIMITED | Banking

Deposit growth will be key monitor-able going forward

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Result and Price Analysis

The quarterly performance of RBL Bank is showing signs of recovery. The important positive pointers are 1) GNPA (3.37%) inched down sequentially by 24bps driven by stable slippages and higher upgrades and recoveries, 2) Restructured book (1.21% of GCA) also decreased, with 13% coverage, 3) Provision expenses (₹2.3bn v/s ₹2.9bn) down sequentially; with stable PCR of 68%. 4) Non-specific PCR 0.69bps of loan is at satisfactory level, 5) NIMs improvement of 32bps on the back of healthy YoA, 6) NII growth (7.1% YoY) below compared to credit growth (17% YoY). However the negatives are a) PPOP de-growth because of higher operating expenses (C/I: 68.5%) led by cards expenses followed by branches and technology. Nevertheless, the bank's latest business growth strategy around ramping up cards acquisition will entail significant operating expenses, which is expected to keep profitability under pressure in the near-to-medium term. Management achieved its previous guidance to exit FY23 with ROA of 1%. Furthermore, Management alluded to FY26 goals to grow business (Loans + Deposits) at a CAGR of ~20% and expects PPOP growth to be higher than loan growth.

Gazing the Core

NPA hiccups are behind; showing strong signs of recovery: The bank reported slippages of ₹6.8bn v/s 6.1bn the previous quarter. Management expects the slippages to moderate going forward. The up-gradation & recoveries stood at ₹3.9bn against ₹2.3bn in 3QFY23. Additionally, the write-offs were at ₹3.5bn v/s ₹3.7bn in the previous quarter. Moderate slippages and higher upgrades and write-offs resulted in decline in the GNPA ratio (3.37%) decreased 24bps sequentially. Reported GNPA/NNPA/PCR: 3.37%/1.10%/68% against 3.61%/1.18%/68% in the previous quarter. Wholesale Banking contributed 47% of the total GNPA amount while contribution of micro banking and credit card stood at 8% and 14% respectively. The management has committed that it would keep taking more provisions to ensure that net NPA stays under control at a range of 1% and does not show more elevation.

Key Financials (₹ mn)	FY21	FY22	FY23	FY24E	FY25E
NII	37,876	40,267	44,515	49,123	56,439
Operating Profit	30,908	27,453	22,025	24,899	30,351
Reported Profits	5,078	(747)	8,827	9,966	13,027
Net Worth	1,26,617	1,26,177	1,35,761	1,45,727	1,58,754
Loan & Advances	5,86,225	6,00,218	7,02,094	8,07,408	9,36,593
Int. Bearing Liabilities	8,43,472	9,00,996	9,82,178	11,28,697	13,06,311

Key Ratios (%)	FY21	FY22	FY23	FY24E	FY25E
NIM's	4.2	4.1	4.3	4.3	4.3
C/I Ratio	47.1	56.9	68.3	67.1	64.1
Gross NPA Ratio	4.3	4.4	3.4	3.3	3.1
PCR (%)	52.3	70.4	68.1	64.8	69.4
Adj. RoA Ratio	0.5	(0.1)	0.8	0.8	0.9
Adj. RoE Ratio	4.4	(0.6)	6.7	7.1	8.6

Rating	Buy
Current Market Price (₹)	162
12 M Price Target (₹)	194
Potential upside (%)	20

Stock Data

FV (₹) :	10
Market Cap Full (₹ bn) :	97
Market Cap Free Float (₹ bn) :	96
52-Week High / Low (₹) :	189 / 74
1 Yr Avg. Dly Traded Volume (in lakh)	183
BSE Code / NSE Symbol	540065 / RBLBANK
Bloomberg :	RBK IN

Shareholding Pattern

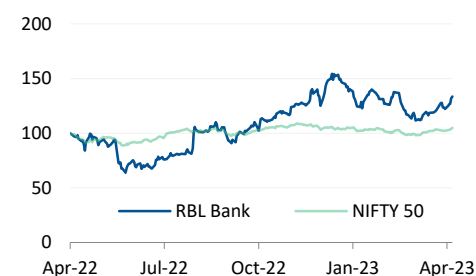
(%)	Mar-23	Dec-22	Sep-22	Jun-22
FPIs	22.27	26.53	27.20	26.11
MFs	13.72	14.48	8.94	6.72
Foreign Companies	10.34	10.34	10.34	10.53
Insurance	3.85	3.85	3.85	3.85
Bodies Corporate	7.18	7.09	5.98	7.70
Foreign Bank	2.39	2.39	2.39	2.39
Others	40.25	35.32	41.30	42.70

Source: BSE

Price Performance

(%)	1M	3M	6M	1YR
RBL Bank	19.5%	7.4%	17.7%	33.7%
Nifty 50	6.6%	2.6%	1.6%	4.8%

* To date / current date : April 28, 2023

RBL Bank vs Nifty 50

The restructured asset down by 46bps to 1.21% of loan book, of which retail contributes 98%. The bank carries 14% coverage on restructured book. The “BB + and below” book stood at 2.8% of the total book. “The A- and above” book stood 84.4%. In 4QFY23, the bank’s provisioning expenses decreased 20% sequentially to ₹2.3bn v/s ₹2.9bn in the previous quarter. The total contingent provisioning (COVID + Restructured + Standard) stood at ₹4.8bn (69bps of net advances). The contingent provision includes provision for restructuring book (₹1.6bn) and provision towards standard assets (₹3.3bn).

NIMs improvement; Higher Opex to stay: The bank’s NII stood at ₹12.1bn; grew by 5.1% QoQ and 7.1% YoY on the back of healthy credit growth. The bank’s NIMs (reported) up 32bps sequentially to 5.01% driven by strong jump in YoA (12.6% v/s 11.96% sequentially) and CoF increased 30bps to 5.85%. Interest earned from restructuring book was not recognized and it impacted marginally to NIMs. The Non – interest income grew by 9% QoQ. Despite 14.8% jump in net operating revenue, the PPOP fall 9.7% YoY to ₹5.9bn because of higher Opex (C/I ratio 68.5%). The operating expenses were majorly from card segment followed by branches, technology and human capital. The management expects the C/I ratio to remain at same level form next few quarters before normalizing. A lower provisioning expense (₹2.3bn v/s ₹2.9bn in 3QFY23) led to reported profit of ₹2.7bn; grew by 30% sequentially. The bank’s quarterly ROA/ ROE stood at 1%/8.1%. The managements earlier guidance was accomplished to exit FY23 with ROA of 1%. The management expects PAT growth to be driven by lower provision expenses. However PPOP growth to remain lackluster considering higher operating expenses. Nevertheless, the bank expects to grow PPOP at a higher pace than credit growth.

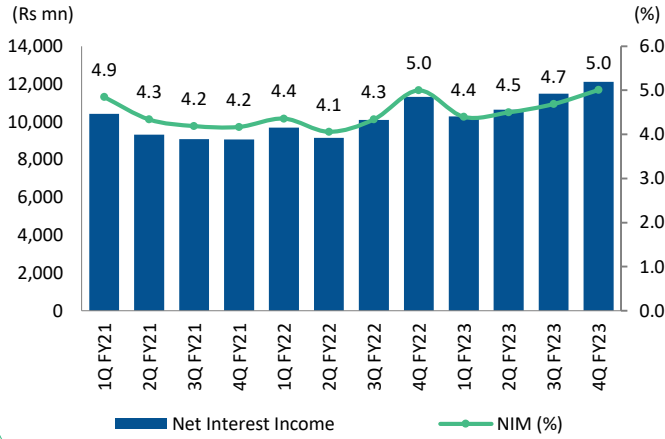
Credit growth strong, deposit lacking: The bank’s net advances stood at ₹702bn; inched up 17% YoY and 5.3% QoQ. Loan Mix carries: Retail: 45%, Corporate: 46% and Micro banking: 9%. Retail loan up 6.2% QoQ while wholesale grew by 2.3% QoQ. Disbursement in micro banking stood strong and the MFI book grew by 19% sequentially. The bank’s deposit stood at ₹849bn and grew sequentially at 3.8% and grew by 7.4% YoY. CASA ratio improved 70bps sequentially to 37.3%. The management has set target to grow credit and deposit at 20% CAGR for FY24-26 with granular deposit share of 50% and above. Management has also alluded to focus more on retail book and increase its share to ~60% from current level by FY26 end. CRAR stood at 16.9% with Tier 1 of 15.3%. RWA to total assets reduced to 73% and ample liquidity position with LCR of 126%.

Outlook and Valuation

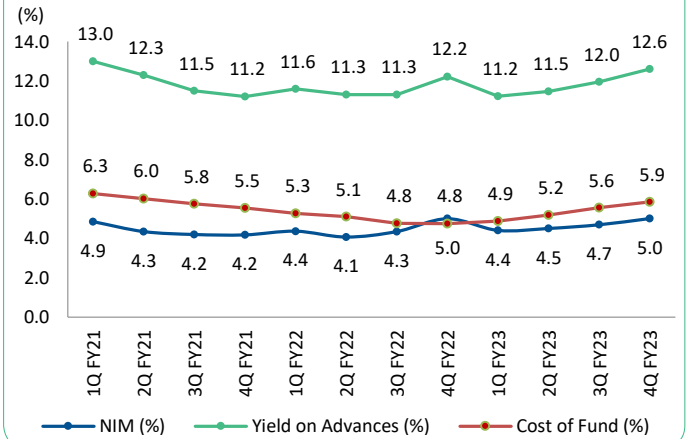
RBL Bank is showing signs of recovery by 1) adequate provisioning, 2) improved PCR, 3) healthy liquidity position with LCR of 126%, and 4) returning to growth trajectory. We recommend a BUY on the bank with target price of ₹194.

Quarterly story in charts

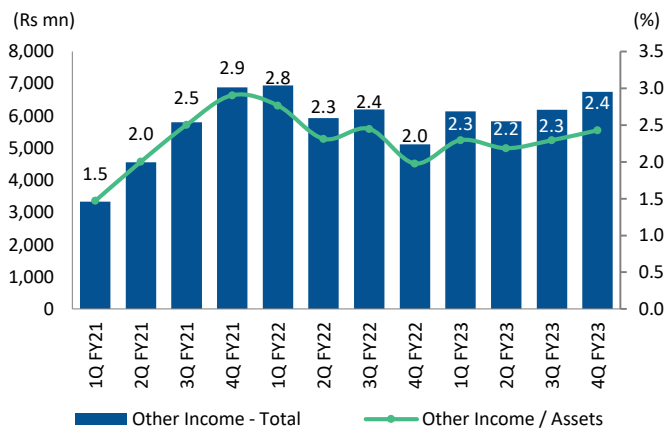
NII Trend



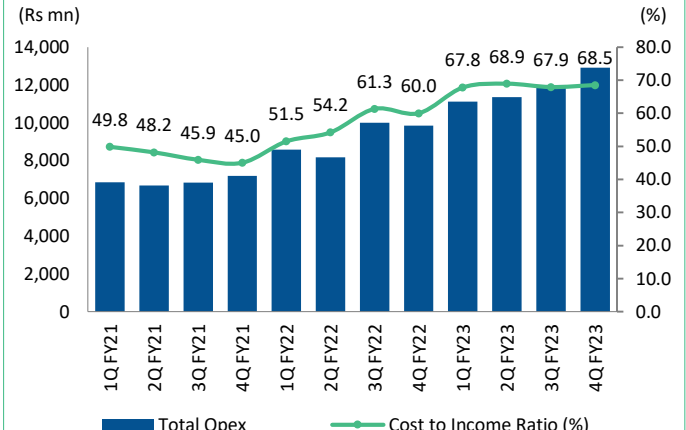
Yields and margin Trend



Other Income Trend



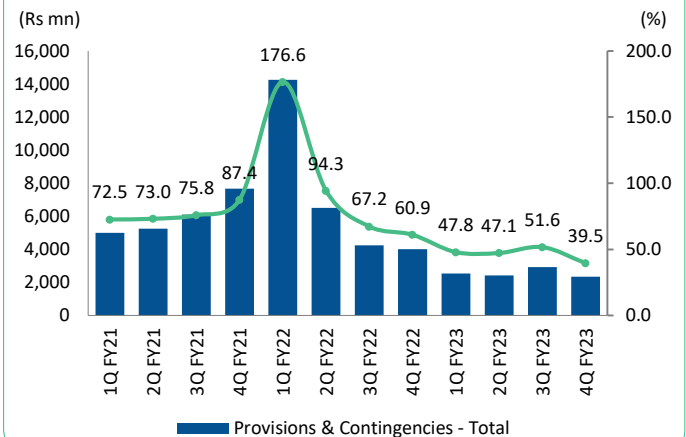
Total Opex Trend



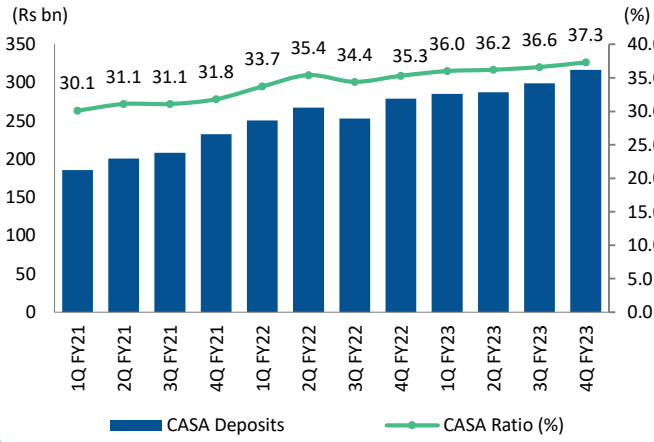
Pre Provision Profit Trend



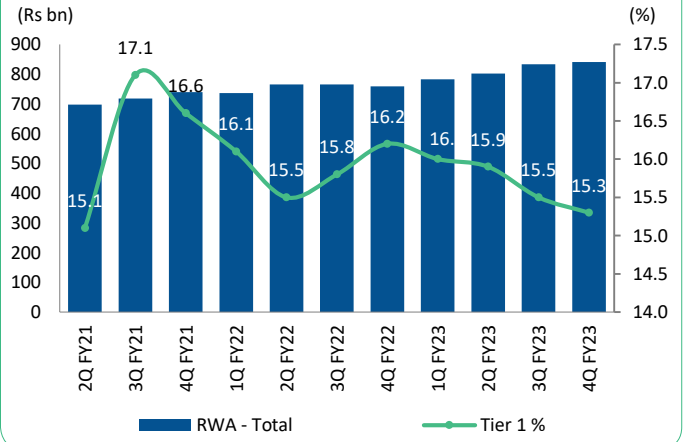
Provision Expenses Trend



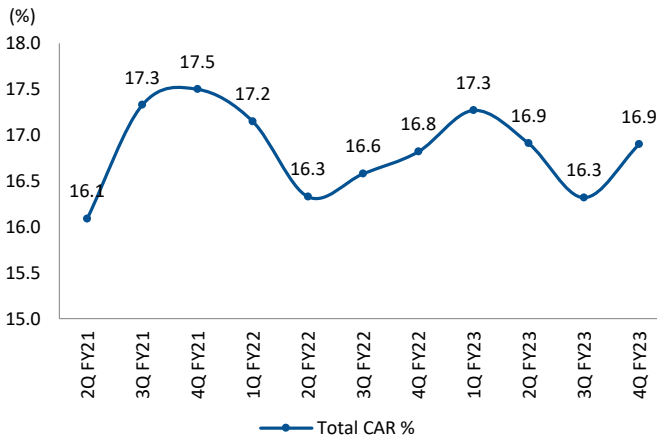
CASA Deposit Trend



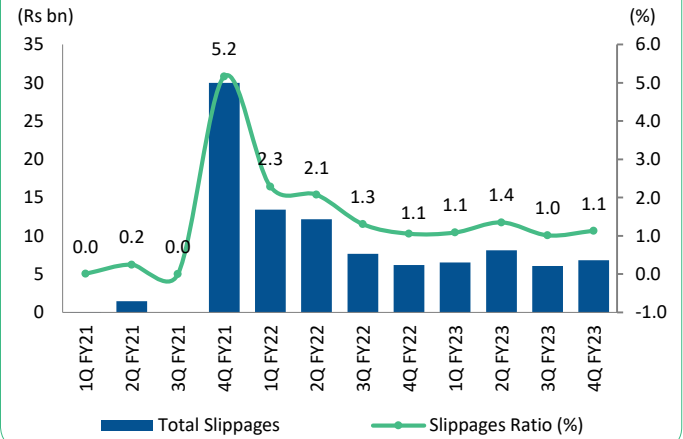
RWA Trend



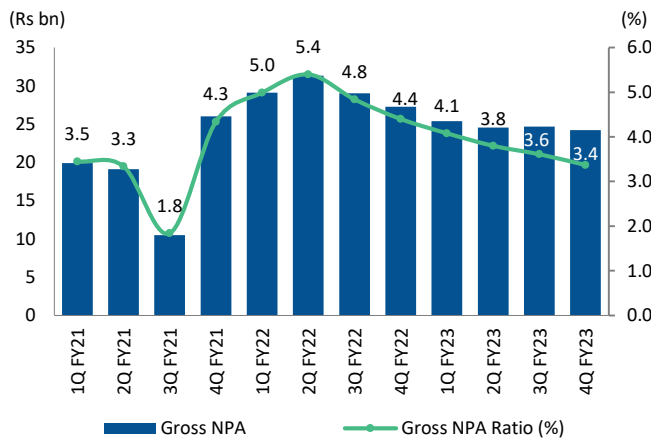
CRAR Trend



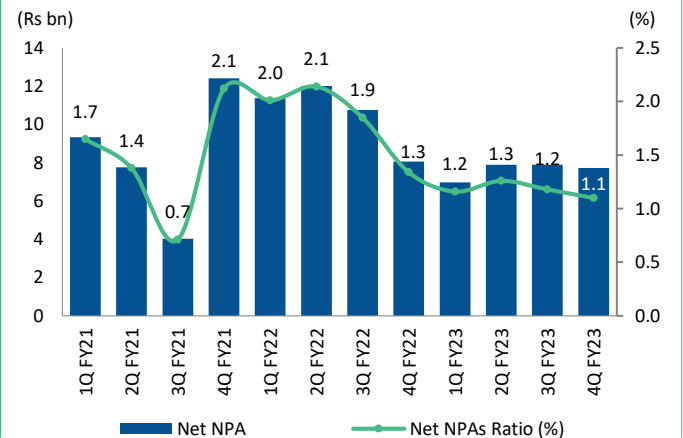
Slippages



Gross NPA Trend



Net NPA Trend



Financial Performance at a glance

Exhibit 1 : Income Statement Analysis

(₹ mn)	4Q FY23	4Q FY22	% yoy / bps	3Q FY23	% qoq / bps	FY23	FY22	% yoy / bps
Interest Inc.	24,962	21,310	17.1	23,686	5.4	91,299	81,758	11.7
Interest Expenses	12,850	9,996	28.6	12,205	5.3	46,784	41,491	12.8
Net Interest Income	12,112	11,313	7.1	11,482	5.5	44,515	40,267	10.5
NII to Net Operative Income	64.2	68.9	(463)	65.0	(75)	64.1	63.2	89
NIM (%)	5.01	5.0	1	4.7	32	4.3	4.1	16
Other Income - Total	6,741	5,114	31.8	6,184	9.0	24,894	23,405	6.4
Other Income to Net Operative Income	35.8	31.1	463	35.0	75	35.9	36.8	(89)
Net Operating Revenue	18,853	16,427	14.8	17,666	6.7	69,409	63,673	9.0
Employee Expenses	3,574	2,790	28.1	3,329	7.3	13,403	10,015	33.8
Other Opex	9,341	7,063	32.3	8,664	7.8	33,981	26,204	29.7
Total Opex	12,915	9,853	31.1	11,994	7.7	47,384	36,220	30.8
Cost to Income Ratio (%)	68.5	60.0	853	67.9	61	68.3	56.9	1,138
Pre Provision Profits	5,938	6,574	(9.7)	5,672	4.7	22,025	27,453	(19.8)
Provisions & Contingencies - Total	2,347	4,007	(41.4)	2,927	(19.8)	10,219	28,604	(64.3)
NPA Provisions as % Operating Income	39.5	60.9	(2,142)	51.6	(1,209)	46.4	104.2	(5,779)
Profit Before Tax	3,591	2,568	39.9	2,745	30.8	11,805	(1,151)	(1,125.7)
Tax	880	589	49.4	655	34.4	2,978	(404)	(838.0)
Effective Tax Rate (%)	24.5	22.9	157	23.9	65	25.2	35.1	(984)
Reported Profits	2,711	1,978	37.0	2,090	29.7	8,827	(747)	(1,281.1)
RoA (%)	1.0	0.8	23	0.8	22	0.8	(0.1)	87
RoE (%)	8.1	6.4	176	6.3	186	6.7	(0.6)	733

Source: Company, LKP Research

Exhibit 2 : Balance Sheet Analysis

(₹ mn)	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	QoQ % / bps	YoY % / bps
Net Worth	1,24,135	1,26,182	1,28,520	1,30,700	1,32,950	1,35,766	2.1	7.6
RoE (%)	5.0	6.4	6.3	6.1	6.3	8.1	186	176
Tier 1 %	15.8	16.2	16.0	15.9	15.5	15.3	(20)	(90)
Total CAR %	16.6	16.8	17.3	16.9	16.3	16.9	58	8
RWA - Total	7,65,100	7,59,090	7,82,220	8,01,870	8,33,530	8,41,380	0.9	10.8
Advances - Total	5,81,410	6,00,218	6,02,700	6,29,417	6,66,840	7,02,094	5.3	17.0
Investments	2,29,830	2,22,744	2,75,370	2,58,132	2,67,770	2,88,755	7.8	29.6
Total Assets	10,19,035	10,62,086	10,77,320	10,74,017	10,95,550	11,58,762	5.8	9.1
RoA (%)	0.61	0.77	0.75	0.77	0.78	1.00	22	23
Deposits	7,36,390	7,90,065	7,92,160	7,94,045	8,17,460	8,48,865	3.8	7.4
CASA Deposits	2,53,318	2,78,893	2,85,178	2,87,444	2,99,190	3,16,627	5.8	13.5
CASA Ratio (%)	34.4	35.3	36.0	36.2	36.6	37.3	70	200
Interest Bearing Liabilities - Total	8,56,130	9,00,996	9,10,870	9,01,802	9,23,690	9,82,178	6.3	9.0

Source: Company, LKP Research

Exhibit 3: Funding Profile Analysis

(₹ mn)	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	QoQ % / bps	YoY % / bps
Interest Bearing Liabilities - Total	8,56,130	9,00,996	9,10,870	9,01,802	9,23,690	9,82,178	6.3	9.0
Deposits	7,36,390	7,90,065	7,92,160	7,94,045	8,17,460	8,48,865	3.8	7.4
CASA Deposits	2,53,318	2,78,893	2,85,178	2,87,444	2,99,190	3,16,627	5.8	13.5
Saving Deposit	1,45,069	1,63,544	1,63,185	1,69,926	1,70,849	1,47,703	(13.5)	(9.7)
Current Deposit	1,08,249	1,15,350	1,21,993	1,17,519	1,28,341	1,68,924	31.6	46.4
Term Deposits	4,83,072	5,11,172	5,06,982	5,06,601	5,18,270	5,32,238	2.7	4.1
Borrowings	1,19,740	1,10,930	1,18,710	1,07,757	1,06,230	1,33,313	25.5	20.2
Interest Bearing Liabilities - Total	8,56,130	9,00,996	9,10,870	9,01,802	9,23,690	9,82,178	6.3	9.0

Source: Company, LKP Research

Exhibit 4: Asset Quality Analysis

(₹ mn)	3Q FY22	4Q FY22	1Q FY23	2Q FY23	3Q FY23	4Q FY23	QoQ % / bps	YoY % / bps
Total Slippages	7,660	6,190	6,530	8,120	6,080	6,810	12.0	10.0
Slippages Ratio (%)	1.31	1.06	1.09	1.35	1.01	1.13	12	8
Gross NPA	29,019	27,284	25,369	24,566	24,687	24,199	(2.0)	(11.3)
Gross NPAs Ratio (%)	4.84	4.40	4.08	3.80	3.61	3.37	(24)	(103)
PCR - Calculated (%)	62.9	70.4	72.5	67.8	68.0	68.1	7	(236)
Net NPA	10,755	8,066	6,971	7,902	7,899	7,725	(2.2)	(4.2)
Net NPAs Ratio (%)	1.85	1.34	1.16	1.26	1.18	1.10	(8)	(24)
Standard Restructured	19,980	19,640	17,390	13,940	11,160	8,495	(23.9)	(56.7)
Std. Rest. Adv. as % of Advances	3.4	3.3	2.89	2.21	1.67	1.21	(46)	(205)

Source: Company, LKP Research

Annual Projections

Exhibit 5: Profit and Loss Statement

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Interest Income	82,145	81,758	91,299	1,03,898	1,19,624
Interest Expenses	44,270	41,491	46,784	54,775	63,186
Net Interest Income	37,876	40,267	44,515	49,123	56,439
NIM (%)	4.20	4.13	4.29	4.26	4.26
Other Income - Total	20,578	23,405	24,894	26,478	28,162
Net Operating Revenue	58,454	63,673	69,409	75,601	84,601
Employee Exp.	8,454	10,015	13,403	14,342	15,346
Other Opex	19,092	26,204	33,981	36,360	38,905
Total Opex	27,546	36,220	47,384	50,701	54,250
C/I Ratio	47.12	56.88	68.27	67.06	64.12
Pre Provision Profits	30,908	27,453	22,025	24,899	30,351
PPP Growth (yoy %)	12.3	(11.2)	(19.8)	13.1	21.9
Provisions & Contingencies - Total	24,017	28,604	10,219	11,571	12,930
Credit Cost (As % of Op. AUM)	4.11	4.78	1.67	1.60	1.60
Profit Before Tax	6,891	(1,151)	11,805	13,328	17,421
Tax	1,813	(404)	2,978	3,362	4,394
Effective Tax Rate	26.3	35.1	25.2	25.2	25.2
Reported Profits	5,078	(747)	8,827	9,966	13,027
PAT Growth (yoy %)	0.4	(114.7)	(1,281.1)	12.9	30.7

Source: Company, LKP Research

Exhibit 6: Balance Sheet

(₹ mn)	FY21	FY22	FY23	FY24E	FY25E
Equity Share Capital	5,980	5,995	5,996	5,996	5,996
Reserves (ex Revel. Reserve)	1,20,637	1,20,182	1,29,765	1,39,731	1,52,758
Net Worth - Ex Revaluation	1,26,617	1,26,177	1,35,761	1,45,727	1,58,754
Deposits	7,31,213	7,90,065	8,48,865	9,75,497	11,29,003
Borrowings	1,12,259	1,10,930	1,33,313	1,53,200	1,77,308
Interest Bearing Liabilities	8,43,472	9,00,996	9,82,178	11,28,697	13,06,311
Other Lia. & Prov.	36,409	34,908	40,818	47,931	54,913
Total Liabilities	10,06,506	10,62,086	11,58,762	13,22,361	15,19,978
Assets					
Cash & Cash Equivalent	1,34,242	1,75,477	85,200	97,542	1,12,503
Investments	2,32,304	2,22,744	2,88,755	3,26,970	3,71,775
Loan & Advances	5,86,225	6,00,218	7,02,094	8,07,408	9,36,593
Growth (yoy %)	1.0	2.4	17.0	15.0	16.0
Fixed Assets	4,665	5,481	5,740	5,770	5,969
Other Assets	49,070	58,166	76,974	84,671	93,138
Total Assets	10,06,506	10,62,086	11,58,762	13,22,361	15,19,978

Source: Company, LKP Research

Exhibit 7: Per share data

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Face Value	10	10	10	10	10
Adjusted Share O/S - For Calculation	598	600	600	600	600
Earnings Per Share	8.5	(1.2)	14.7	16.6	21.7
EPS (% YoY)	(14.6)	(114.7)	(1,281.0)	12.9	30.7
P/E (x)	19.0	(129.7)	11.0	9.7	7.4
Book Value	211.7	210.5	226.4	243.1	264.8
BVPS (% YoY)	1.8	(0.6)	7.6	7.3	8.9
P/BV (x)	0.8	0.8	0.7	0.7	0.6
Adj. BV	201.3	203.7	220.0	236.6	258.3
Adj. BV (% YoY)	2.6	1.2	8.0	7.6	9.2
P/ABV (x)	0.8	0.8	0.7	0.7	0.6

Source: Company, LKP Research

Exhibit 8: Detailed ROA Tree

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Yields / Margins					
Yield on Advance	11.2	10.6	11.0	10.9	10.9
Yield on Funds	9.1	8.4	8.8	9.0	9.0
Cost of Funds (CoF)	5.6	4.8	5.0	5.2	5.2
Interest Spread	3.5	3.6	3.8	3.8	3.8
NIM's	4.2	4.1	4.3	4.3	4.3
Interest Income / Assets	8.7	7.9	8.2	8.4	8.4
Interest Exp. / Assets	4.7	4.0	4.2	4.4	4.4
NII / Assets	4.0	3.9	4.0	4.0	4.0
Fee Income / Assets	1.7	2.0	2.0	1.9	1.8
Other Non Core Income / Assets	-	-	-	-	0.2
Other Income / Assets	2.2	2.3	2.2	2.1	2.0
Net Operating Income / Assets	6.2	6.2	6.3	6.1	6.0
Operating Ratios					
NII to Net Operative Income	64.8	63.2	64.1	65.0	66.7
Other Income to Net Operative Income	35.2	36.8	35.9	35.0	33.3
Empl. Cost/Oper. Exps.	30.7	27.7	28.3	28.3	28.3
Other Op. Exps./Oper. Exps.	69.3	72.3	71.7	71.7	71.7
C/I Ratio	47.1	56.9	68.3	67.1	64.1
Provisions as % PPP	41.1	44.9	14.7	15.3	15.3
Credit Cost (As % of Op. AUM)	4.1	4.8	1.7	1.6	1.6
Effective Tax Rate	26.3	35.1	25.2	25.2	25.2
Employee Exp. / Assets	0.9	1.0	1.2	1.2	1.1
Other Opex/ Assets	2.0	2.5	3.1	2.9	2.7
Total Opex / Assets	2.9	3.5	4.3	4.1	3.8
Operating Profits / Assets	3.3	2.7	2.0	2.0	2.1
Op Profit ex Except Items / Assets	3.3	2.7	2.0	2.0	2.1
Provisions / Assets	2.5	2.8	0.9	0.9	0.9
Profit Before Tax / Assets	0.7	(0.1)	1.1	1.1	1.2
Tax Expenses / Assets	0.2	(0.0)	0.3	0.3	0.3
RoA	0.5	(0.1)	0.8	0.8	0.9
Leverage (x)	7.9	8.4	8.5	9.1	9.6
RoE	4.4	(0.6)	6.7	7.1	8.6
Adj. RoA	0.5	(0.1)	0.8	0.8	0.9
Adj. RoE	4.4	(0.6)	6.7	7.1	8.6

Source: Company, LKP Research

Exhibit 9: Balance Sheet Ratios

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Credit / Deposit Ratio	80.2	76.0	82.7	82.8	83.0
Incremental C/D Ratio	3.9	23.8	173.3	83.2	84.2
Investment Deposit Ratio	31.8	28.2	34.0	33.5	32.9
Dom. SLR Investment / Deposits	26.1	23.2	28.0	26.8	25.5
CASA Ratio	31.9	35.4	37.4	37.4	37.4

Source: Company, LKP Research

Exhibit 10: Asset Quality

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Slippage Ratio	5.4	6.7	4.6	4.0	4.0
Gross NPA (Cl Bal)	26,015	27,284	24,199	26,445	28,771
Gross NPAs Ratio (%)	4.3	4.4	3.4	3.3	3.1
PCR (%)	52.3	70.4	68.1	64.8	69.4
Net NPA (Cl. Bal.)	12,414	8,066	7,725	9,307	8,817
Net NPAs Ratio (%)	2.1	1.3	1.1	1.2	0.9
Total Impaired Loans	26,015	27,284	24,199	26,445	28,771
Impaired Loan as % of Loan / AUM	4.2	4.3	3.2	3.0	2.8
Total Risk Reserves	13,602	19,218	16,473	17,138	19,954
Total Risk As % of Loan Book	2.2	3.0	2.2	2.0	2.0

Source: Company, LKP Research

Exhibit 11: Key Assumptions & Forecasts

Y/E Mar	FY21	FY22	FY23	FY24E	FY25E
Loan & Advances	5,86,225	6,00,218	7,02,094	8,07,408	9,36,593
Growth (yoy %)		2.4	17.0	15.0	16.0
Interest Bearing Liabilities	8,43,472	9,00,996	9,82,178	11,28,697	13,06,311
Growth (yoy %)		6.8	9.0	14.9	15.7
Yield on Funds	9.1	8.4	8.8	9.0	9.0
Cost of Funds (CoF)	5.6	4.8	5.0	5.2	5.2
Interest Spread	3.5	3.6	3.8	3.8	3.8
NIM's	4.2	4.1	4.3	4.3	4.3
Other Income Growth	7.7	13.7	6.4	6.4	6.4
C/I Ratio	47.1	56.9	68.3	67.1	64.1
Effective Tax Rate	26.3	35.1	25.2	25.2	25.2
Return Ratios					
Adj. RoA	0.5	(0.1)	0.8	0.8	0.9
Adj. RoE	4.4	(0.6)	6.7	7.1	8.6
Asset Quality Metrics					
Credit Cost (As % of Op. AUM)	4.1	4.8	1.7	1.6	1.6
Gross NPAs Ratio (%)	4.3	4.4	3.4	3.3	3.1
Net NPAs Ratio (%)	2.1	1.3	1.1	1.2	0.9

Source: Company, LKP Research

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