

**Better growth/portfolio mix to drive up RoAs**

BFSI - Banks ▶ Result Update ▶ July 23, 2023

**TARGET PRICE (Rs): 275**

**RBL Bank continued to report strong profitability, up 43% YoY/6% QoQ to Rs2.9bn/1% RoA on account of strong credit growth, lower opex and contained provisions. NIM was down 17bps QoQ to 4.8% from its peak of 5% due to higher CoF, but the bank expects better portfolio mix towards retail to keep margins healthy. This coupled with improving fees (including payments/cards) and contained opex should lead to 30% core PPOP growth over FY23-26E. Despite moderation in NPA, the bank has guided for elevated LLP in FY24E and would like to maintain a contingency buffer to guard against any potential asset-quality hiccups.**

**Factoring in better growth/NIM, we have revised our earnings estimates for FY25/26E by 1/6% and expect the bank to deliver healthy RoAs/RoEs of 1-1.3%/9-14% over FY24-26E vs. 0.8%/7% during FY23. With better expected delivery on growth/RoA/RoE, we now value the bank at 1x its June 25E ABV and revise the TP to Rs275/share from Rs225/share earlier.**

**RBL Bank: Financial Snapshot (Standalone)**

Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	(748)	8,827	12,756	17,623	24,047
Loan growth (%)	2.4	17.0	19.6	23.4	25.1
NII growth (%)	6.3	10.5	17.7	15.8	21.8
NIM (%)	4.2	4.3	4.5	4.4	4.4
PPOP growth (%)	(5.9)	(19.8)	25.8	27.8	36.8
Adj. EPS (Rs)	(1.2)	14.7	21.3	29.4	40.1
Adj. EPS growth (%)	(113.6)	0.0	44.5	38.2	36.5
Adj. BV (INR)	200.6	216.8	237.6	264.3	299.9
Adj. BVPS growth (%)	(5.4)	8.1	9.6	11.2	13.5
RoA (%)	(0.1)	0.8	1.0	1.2	1.3
RoE (%)	(0.6)	6.7	9.0	11.3	13.8
P/E (x)	(177.3)	15.1	10.4	7.5	5.5
P/ABV (x)	1.1	1.0	0.9	0.8	0.7

Source: Company, Emkay Research

**Margin slips QoQ but outlook positive due to better portfolio mix towards retail**

RBL Bank reported 21%/4% credit growth during Q1, led by healthy growth in the retail book. Within retail, cards/MFI as well as new business segments such as mortgages and VF have also delivered strong growth. A slight decline in mortgages QoQ was mainly due to the bank's decision to move away from one partner NBFC to another, thus leading to some business disruption. Within the cards business, the bank has been focusing on growing the non-BAF book by way of partnerships and mining ETB customers. Overall, deposit growth remains moderate at 8% due to healthy internal liquidity, but it is expected to accelerate in H2 as credit growth inches up. NIM during Q1 slipped 17bps QoQ from its peak to 4.84%, as seen across banks; however, the bank has guided for structurally better NIM due to changing portfolio mix towards retail/SME.

**Moderate slippages in Q1 lead to contained LLP, but the bank plans to build a contingent buffer**

Gross slippages moderated to Rs5.6bn/3.7% of loans, but higher write-offs led to continued moderation in the GNPA ratio to 3.2%. Bank expects asset quality to improve steadily with incremental stress flow from back-book including MFI/cards moderates. The bank also broke a mortgage partnership in view of some early signs of the stress pool, indicating its pro-active risk management strategy. RBL Bank has reached the 70% PCR mark during Q1, but the bank would continue to write off its legacy NPA book and, thus, should keep LLP elevated at 1.4%. Additionally, the bank plans to build a contingent buffer over the medium term, which we believe should keep the bank's credit cost elevated over 1.4-1.5%.

**Retain BUY with a revised TP of Rs275**

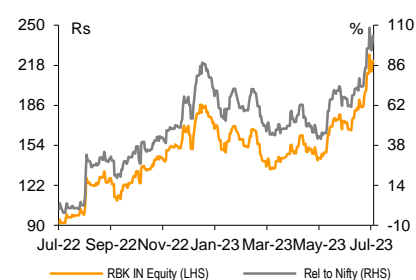
Factoring in the improved growth trajectory, margin/fees and contained LLP, we expect the bank's RoA/RoE to improve to 1.3%/14% in FY26 from 0.8%/7% in FY23. With better expected delivery on growth/RoA/RoE, we now value the bank at 1x its June 25E ABV and revise the TP to Rs275/share from Rs225/share earlier. **Key risks:** Inherent asset-quality risk in cards/business loans and growth/margin slowdown.

Target Price – 12M	Jun-24
<b>Change in TP (%)</b>	<b>22.2</b>
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	24.1
CMP (21-Jul-23) (Rs)	221.6

Stock Data	Ticker
52-week High (Rs)	231
52-week Low (Rs)	89
Shares outstanding (mn)	599.7
Market-cap (Rs bn)	133
Market-cap (USD mn)	1,621
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	12
ADTV-3M (Rs mn)	2,197.0
ADTV-3M (USD mn)	26.8
Free float (%)	99.0
Nifty-50	19,745
INR/USD	82.0
<b>Shareholding, Jun-23</b>	
Promoters (%)	-
FPIs/MFs (%)	25.9/18.3

**Price Performance**

(%)	1M	3M	12M
Absolute	28.7	50.1	133.4
Rel. to Nifty	22.9	34.0	96.3

**1-Year share price trend (Rs)****Anand Dama**

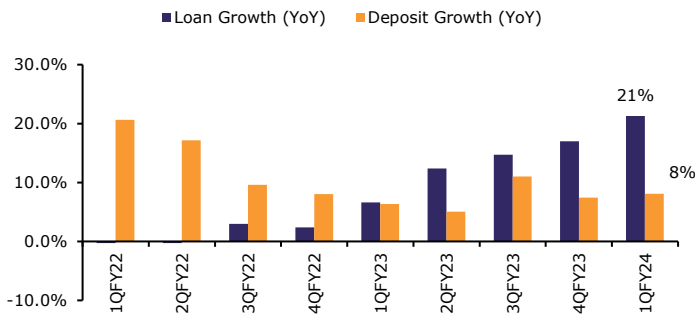
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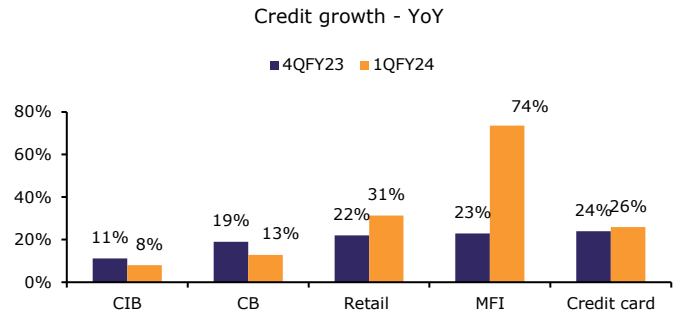
# Story in Charts

**Exhibit 1: Credit growth continued to remain healthy...**



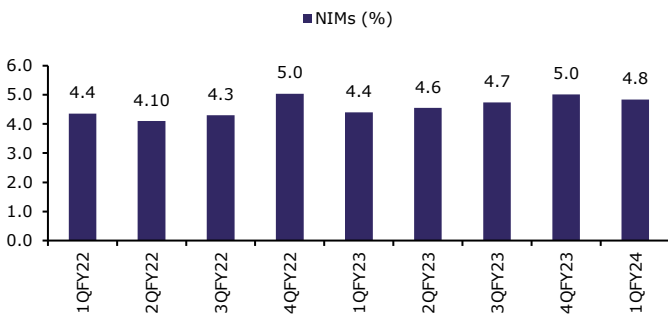
Source: Company, Emkay Research

**Exhibit 2: ...led by the retail and Rural Banking including MFI**



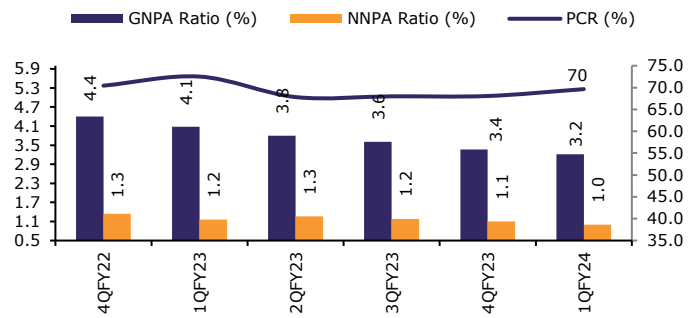
Source: Company, Emkay Research

**Exhibit 3: NIM moderated by 17bps qoq to 4.8%, due to higher CoF**



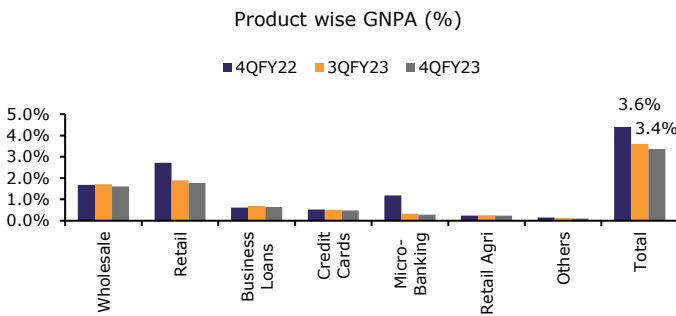
Source: Company, Emkay Research

**Exhibit 4: GNPA ratio to 3.2% amid moderating slippages and accelerated w-off**



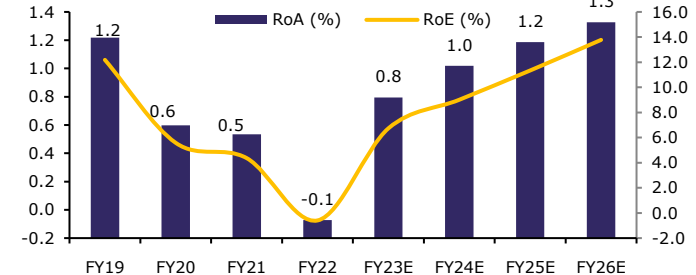
Source: Company, Emkay Research

**Exhibit 5: NPA across products should continue to decline led by lower incremental slippages/higher w-offs**



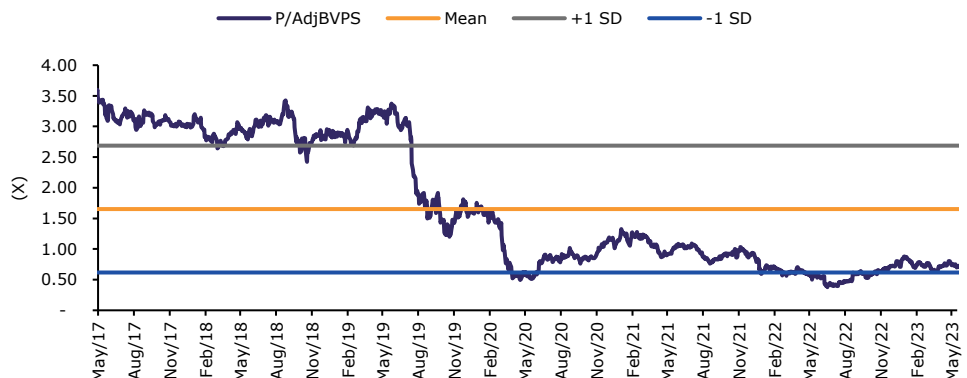
Source: Company, Emkay Research

**Exhibit 6: Better growth trajectory, margin/fees and contained LLP should drive up the bank's RoA**



Source: Company, Emkay Research

**Exhibit 7: The stock currently trades at 1.1x one-year forward P/ABV (x)**



Source: Bloomberg, Emkay Research

**Exhibit 8: Actual vs. Estimates (Q1FY24)**

(Rs mn)	Actuals	Estimates		Variation (%)		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	19,316	19,976	19,444	-3%	-1%	Margin moderation and lower other income led to the miss.
PPOP	6,475	6,550	6,375	-1%	2%	Lower net income led to the miss.
PAT	2,880	2,779	2,679	4%	8%	Lower provisions led to the beat.

Source: Company, Emkay Research

**Exhibit 9: Quarterly Summary**

(Rs mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	20,893	21,757	23,686	24,962	26,799	28	7	91,299	114,806	26
Interest Exp.	10,616	11,113	12,205	12,850	14,337	35	12	46,784	62,427	33
Net Interest Income	10,277	10,644	11,482	12,112	12,462	21	3	44,515	52,379	18
Global NIMs (Reported)	4.40	4.55	4.74	5.01	4.84	44bps	-17bps	4.32	4.55	22bps
Non-interest Income	6,136	5,833	6,184	6,741	6,854	12	2	24,894	30,522	23
Operating Expenses	11,122	11,354	11,994	12,915	12,841	15	-1	47,384	55,189	16
Pre Provisioning Profit	5,291	5,124	5,672	5,938	6,475	22	9	22,025	27,711	26
Provision & Contingencies	2,530	2,415	2,927	2,347	2,662	5	13	10,220	10,664	4
PBT	2,761	2,709	2,745	3,591	3,813	38	6	11,805	17,047	44
Income Tax Expense (Gain)	750	693	655	880	932	24	6	2,978	4,291	44
Net Profit/(Loss)	2,012	2,016	2,090	2,711	2,881	43	6	8,827	12,756	45
Gross NPA (%)	4.08	3.80	3.61	3.37	3.22	-86bps	-15bps	3.37	2.55	-82bps
Net NPA (%)	1.16	1.26	1.18	1.10	1.00	-16bps	-10bps	1.10	0.78	-32bps
Deposits (Rs bn)	792	794	817	849	856	8	1	849	992	17
Net Advances (Rs bn)	603	629	667	702	731	21	4	702	840	20

Source: Company, Emkay Research

**Exhibit 10: Revision in estimates**

Y/E March (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)	Earlier	Revised	Change (%)
Net income	82,895	82,900	0.0%	99,464	98,519	-0.9%	120,090	120,653	0.5%
PPOP	27,465	27,711	0.9%	35,379	35,427	0.1%	45,754	48,478	6.0%
PAT	12,701	12,756	0.4%	17,466	17,623	0.9%	22,769	24,047	5.6%
EPS (Rs)	21.2	21.3	0.4%	29.1	29.4	0.9%	38.0	40.1	5.6%
BV (Rs)	245.6	245.7	0.0%	272.3	272.6	0.1%	307.2	309.7	0.8%

Source: Emkay Research

**Exhibit 11: Key Assumptions**

	FY23A	FY24E	FY25E	FY26E
Loan Growth (%)	17.0	19.6	23.4	25.1
Deposit Growth (%)	7	16.8	22.6	25.5
NIM (%)	4.3	4.5	4.4	4.4
GNPA (%)	3.4	2.6	2.1	2.0
Credit Cost (%)	1.4	1.4	1.4	1.5

Source: Emkay Research

## Exhibit 12: Key ratios and trends

	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Loans (Rs mn)	565,270	560,086	581,410	600,218	602,700	629,417	666,840	702,094	730,870
Loans YoY (%)	(0.3)	(0.3)	3.0	2.4	6.6	12.4	14.7	17.0	21.3
Loans QoQ (%)	(3.6)	(0.9)	3.8	3.2	0.4	4.4	5.9	5.3	4.1
<b>Liability Profile</b>									
CASA (%)	33.6	35.4	34.4	35.3	36.0	36.2	36.6	37.3	37.3
CA (%)	12.7	12.7	14.7	14.6	15.4	14.8	15.7	17.4	17.7
SA (%)	20.9	22.7	19.7	20.7	20.6	21.4	20.9	19.9	19.6
No. of Branches	392	445	463	502	502	507	516	517	520
NIM (%)	4.36	4.10	4.30	5.04	4.40	4.55	4.74	5.01	4.84
Yield on Advances (%)	11.60	11.30	11.30	12.22	11.22	11.46	11.96	12.60	12.80
Cost of Deposits (%)	5.30	5.00	4.80	4.75	4.84	5.19	5.55	5.85	6.15
<b>Asset Quality</b>									
GNPA (%)	5.0	5.4	4.8	4.4	4.1	3.8	3.6	3.4	3.2
NNPA (%)	2.0	2.1	1.9	1.3	1.2	1.3	1.2	1.1	1.0
PCR (%)	60.9	61.7	62.9	70.4	72.5	67.8	68.0	68.1	69.6
Slippages (Rs mn)	13,420	12,170	7,660	6,190	6,530	8,120	6,080	6,810	5,550
Slippages - Annualized (%)	9.5	8.7	5.4	4.2	4.6	5.8	4.2	4.5	3.7
CAR (%)	17.2	16.3	16.6	16.8	17.5	17.4	17.0	17.0	16.7
Tier I %	16.1	15.5	15.8	16.2	16.0	15.9	15.5	15.3	15.1
<b>ROE Decomposition % (on total assets)</b>									
NII	3.9	3.6	3.9	4.3	3.8	4.0	4.2	4.3	4.3
Other Income (Ex. Treasury)	2.0	2.0	2.2	2.0	2.0	2.0	2.2	2.3	2.3
Treasury	0.6	0.3	0.1	(0.0)	0.3	0.1	0.1	0.0	0.2
Opex	3.4	3.2	3.7	3.8	4.2	4.2	4.4	4.6	4.4
PPOP	3.0	2.7	2.4	2.5	2.0	1.9	2.1	2.1	2.2
Provisioning Cost	5.5	2.5	1.6	1.5	0.9	0.9	1.1	0.8	0.9
PBT	(2.5)	0.2	0.8	1.0	1.0	1.0	1.0	1.3	1.3
Tax	(0.6)	0.0	0.2	0.2	0.3	0.3	0.2	0.3	0.3
ROA	(1.8)	0.1	0.6	0.8	0.8	0.7	0.8	1.0	1.0
ROE	(14.8)	1.0	5.1	6.3	6.3	6.2	6.3	8.1	8.4

Source: Company, Emkay Research

## RBL Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	81,758	91,299	114,806	132,161	156,627
Interest Expense	41,491	46,784	62,427	71,484	82,725
<b>Net interest income</b>	<b>40,267</b>	<b>44,515</b>	<b>52,379</b>	<b>60,677</b>	<b>73,902</b>
NII growth (%)	6.3	10.5	17.7	15.8	21.8
Other income	23,405	24,894	30,522	37,842	46,751
<b>Total Income</b>	<b>63,673</b>	<b>69,409</b>	<b>82,900</b>	<b>98,519</b>	<b>120,653</b>
Operating expenses	36,220	47,384	55,189	63,092	72,175
<b>PPOP</b>	<b>27,453</b>	<b>22,025</b>	<b>27,711</b>	<b>35,427</b>	<b>48,478</b>
PPOP growth (%)	(5.9)	(19.8)	25.8	27.8	36.8
<b>Core PPOP</b>	<b>24,961</b>	<b>20,362</b>	<b>24,801</b>	<b>31,934</b>	<b>44,287</b>
Provisions & contingencies	28,605	10,220	10,664	11,876	16,342
<b>PBT</b>	<b>(1,152)</b>	<b>11,805</b>	<b>17,047</b>	<b>23,551</b>	<b>32,136</b>
Extraordinary items	0	0	0	0	0
Tax expense	(404)	2,978	4,291	5,928	8,089
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
<b>Reported PAT</b>	<b>(748)</b>	<b>8,827</b>	<b>12,756</b>	<b>17,623</b>	<b>24,047</b>
PAT growth (%)	(114.7)	(1,279.5)	44.5	38.2	36.5
<b>Adjusted PAT</b>	<b>(748)</b>	<b>8,827</b>	<b>12,756</b>	<b>17,623</b>	<b>24,047</b>
<b>Diluted EPS (Rs)</b>	<b>(1.2)</b>	<b>14.7</b>	<b>21.3</b>	<b>29.4</b>	<b>40.1</b>
Diluted EPS growth (%)	(112.9)	(1,278.0)	44.5	38.2	36.5
<b>DPS (Rs)</b>	<b>0.0</b>	<b>1.5</b>	<b>2.0</b>	<b>2.5</b>	<b>3.0</b>
<b>Dividend payout (%)</b>	<b>0.0</b>	<b>10.2</b>	<b>9.4</b>	<b>8.5</b>	<b>7.5</b>
Effective tax rate (%)	35.0	25.2	25.2	25.2	25.2
Net interest margins (%)	4.2	4.3	4.5	4.4	4.4
Cost-income ratio (%)	56.9	68.3	66.6	64.0	59.8
Shares outstanding (mn)	599.5	599.5	599.5	599.5	599.5

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
<b>Asset quality</b>					
Gross NPLs	27,283.9	24,203.9	21,809.6	22,293.4	26,237.6
Net NPLs	8,065.6	7,727.1	6,542.9	6,688.0	7,871.3
GNPA ratio (%)	4.4	3.4	2.6	2.1	2.0
NNPA ratio (%)	1.3	1.1	0.8	0.6	0.6
Provision coverage (%)	70.4	68.1	70.0	70.0	70.0
Gross slippages	39,434.4	27,540.0	23,942.8	24,190.7	26,294.3
Gross slippage ratio (%)	6.4	3.8	2.8	2.3	2.0
LLP ratio (%)	4.6	1.4	1.4	1.4	1.5
NNPA to net worth (%)	6.1	5.5	4.3	3.9	4.1
<b>Capital adequacy</b>					
Total CAR (%)	16.8	16.9	15.7	14.4	13.3
Tier-1 (%)	16.2	15.3	14.2	13.1	12.1
CET-1 (%)	16.2	15.3	14.2	13.1	12.1
RWA-to-Total Assets (%)	71.5	73.5	74.0	74.0	74.0
<b>Miscellaneous</b>					
Total income growth (%)	3.0	10.5	25.1	17.0	19.6
Opex growth (%)	31.5	30.8	16.5	14.3	14.4
Core PPOP growth (%)	(5.6)	(18.4)	21.8	28.8	38.7
PPOP margin (%)	26.1	19.0	19.1	20.8	23.8
PAT/PPOP (%)	(2.7)	40.1	46.0	49.7	49.6
LLP-to-Core PPOP (%)	114.6	50.2	43.0	37.2	36.9
Yield on advances (%)	10.8	11.1	11.9	11.5	11.1
Cost of funds (%)	4.8	5.0	5.9	5.6	5.3

Source: Company, Emkay Research

Balance Sheet					
Y/E March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,995	5,995	5,995	5,995	5,995
Reserves & surplus	120,187	129,770	141,327	157,452	179,701
<b>Net worth</b>	<b>126,182</b>	<b>135,765</b>	<b>147,323</b>	<b>163,447</b>	<b>185,696</b>
Deposits	790,065	848,865	991,610	1,215,558	1,525,508
Borrowings	110,930	133,313	156,455	179,228	205,268
<b>Interest-bearing liab.</b>	<b>900,996</b>	<b>982,178</b>	<b>1,148,065</b>	<b>1,394,786</b>	<b>1,730,776</b>
<b>Other liabilities &amp; prov.</b>	<b>34,908</b>	<b>40,818</b>	<b>48,763</b>	<b>66,889</b>	<b>83,363</b>
<b>Total liabilities &amp; equity</b>	<b>1,062,086</b>	<b>1,158,762</b>	<b>1,344,151</b>	<b>1,625,122</b>	<b>1,999,835</b>
Net advances	600,218	702,094	839,832	1,036,166	1,296,348
Investments	222,744	288,755	305,090	356,912	425,157
Cash, other balances	175,477	85,200	97,586	111,583	135,001
<b>Interest earning assets</b>	<b>998,439</b>	<b>1,076,048</b>	<b>1,242,507</b>	<b>1,504,661</b>	<b>1,856,505</b>
Fixed assets	5,481	5,740	7,164	8,388	9,850
Other assets	58,166	76,974	94,481	112,073	133,479
<b>Total assets</b>	<b>1,062,086</b>	<b>1,158,762</b>	<b>1,344,151</b>	<b>1,625,122</b>	<b>1,999,835</b>
BVPS (Rs)	210.7	226.4	245.7	272.6	309.7
Adj. BVPS (INR)	200.6	216.8	237.6	264.3	299.9
Gross advances	619,436	718,570	855,099	1,051,771	1,314,714
Credit to deposit (%)	76.0	82.7	84.7	85.2	85.0
CASA ratio (%)	35.3	37.3	35.6	34.8	35.1
Cost of deposits (%)	4.7	5.1	6.0	5.7	5.4
Loans-to-Assets (%)	56.5	60.6	62.5	63.8	64.8
Net advances growth (%)	2.4	17.0	19.6	23.4	25.1
Deposit growth (%)	8.0	7.4	16.8	22.6	25.5
Book value growth (%)	(7.9)	7.5	8.5	10.9	13.6

Source: Company, Emkay Research

Valuations and Key Ratios					
Y/E March	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(177.3)	15.1	10.4	7.5	5.5
P/B (x)	1.1	1.0	0.9	0.8	0.7
P/ABV (x)	1.1	1.0	0.9	0.8	0.7
P/PPOP (x)	4.8	6.0	4.8	3.8	2.7
Dividend yield (%)	0.0	0.7	0.9	1.1	1.4
<b>DuPont-RoE split (%)</b>					
NII/avg assets	3.9	4.0	4.2	4.1	4.1
Other income	2.3	2.2	2.4	2.5	2.6
Fee income	0.8	1.4	1.5	1.5	1.5
Opex	3.5	4.3	4.4	4.2	4.0
<b>PPOP</b>	<b>2.7</b>	<b>2.0</b>	<b>2.2</b>	<b>2.4</b>	<b>2.7</b>
Core PPOP	2.4	1.8	2.0	2.2	2.4
Provisions	2.8	0.9	0.9	0.8	0.9
Tax expense	0.0	0.3	0.3	0.4	0.4
<b>RoA (%)</b>	<b>(0.1)</b>	<b>0.8</b>	<b>1.0</b>	<b>1.2</b>	<b>1.3</b>
Leverage ratio (x)	8.2	8.5	8.8	9.6	10.4
<b>RoE (%)</b>	<b>(0.6)</b>	<b>6.7</b>	<b>9.0</b>	<b>11.3</b>	<b>13.8</b>
<b>Quarterly data</b>					
Rs mn, Y/E March	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
NII	10,277	10,644	11,482	12,112	12,462
NIM (%)	4.4	4.6	4.7	5.0	4.8
PPOP	5,291	5,124	5,672	5,938	6,475
PAT	2,010	2,014	2,088	2,709	2,880
EPS (Rs)	3.35	3.36	3.48	4.52	4.80

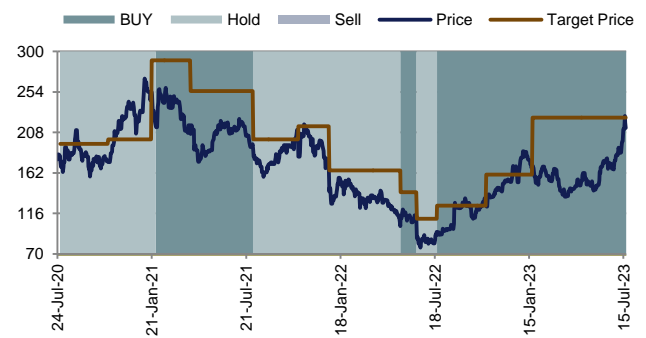
Source: Company, Emkay Research

## RECOMMENDATION HISTORY - DETAILS

Date	CMP (INR)	TP (INR)	Rating	Analyst
23-May-23	147	225	Buy	Anand Dama
01-May-23	162	225	Buy	Anand Dama
09-Mar-23	160	225	Buy	Anand Dama
21-Jan-23	170	225	Buy	Anand Dama
24-Oct-22	127	160	Buy	Anand Dama
22-Aug-22	98	125	Buy	Anand Dama
22-Jul-22	92	125	Buy	Anand Dama
13-Jun-22	88	110	Hold	Anand Dama
13-May-22	111	140	Buy	Anand Dama
28-Jan-22	148	165	Hold	Anand Dama
27-Dec-21	141	165	Hold	Anand Dama
29-Oct-21	181	215	Hold	Anand Dama
03-Aug-21	187	200	Hold	Anand Dama
05-Apr-21	206	255	Buy	Anand Dama
29-Jan-21	214	290	Buy	Anand Dama
20-Jan-21	254	290	Hold	Anand Dama
29-Oct-20	175	200	Hold	Anand Dama
29-Jul-20	177	195	Hold	Anand Dama

Source: Company, Emkay Research

## RECOMMENDATION HISTORY - TREND



Source: Bloomberg, Company, Emkay Research

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