REDUCE (Downgrade from HOLD)

CMP: **INR 222** Target Price: **INR 200 (INR 170)** ▼ -10%

ICICI Securities Limited is the author and distributor of this report

24 July 2023

India | Equity Research | Q1FY24 results review

RBL Bank

Banking

Sustains 1% RoA on lower opex, but we see pressure on RoA ahead

RBL Bank (RBL) reported a mixed Q1FY24 with strong loan growth, contained opex and steady 1% RoA though deposit growth was flattish and NIM declined QoQ. Asset quality was broadly stable with overall reduction in gross slippages though credit card slippages inched up. Opex growth is likely to increase, which could create pressure on cost-to-income ratio in coming quarters. We estimate RoAs at ~0.9% each for FY24E/FY25E with single-digit RoE. We raise our target price to INR 200 (vs INR 170 earlier) valuing the bank at ~0.8x FY25E ABV (vs 0.7x earlier). Post a sharp 28% rise in the stock price in last ~1 month, we downgrade it to **REDUCE** (from ***Hold*** earlier).

Loan growth healthy and led by retail; deposit growth weak

Loan growth was healthy at 4% QoQ and 21% YoY. Incrementally, the wholesale book was flattish while retail continued at 8% QoQ. Within retail, growth was strong in MFI, credit card, business loans, rural vehicle finance, etc. While the underlying disbursement in housing remained healthy (~INR 7bn), the o/s was flattish as the bank has disassociated one business correspondent in this segment. RBL retains its guidance of >20% loan growth for FY24E-FY26E. Deposit growth was weak at 1% QoQ and 8% YoY with LDR now at >85%. We believe the bank needs to accelerate its deposit growth hereon.

NIM declines QoQ due to faster rise in cost though management expects revival ahead

Cost of deposits increased 34 bps QoQ while cost of funds increased 30 bps QoQ. Yields expanded at 20bps QoQ. Overall NIM declined 17bps QoQ to 4.84% and NII grew 3% QoQ (in-line). Bank expects slower rise in cost of deposits while build-up of high-yielding retail should aid healthy yields expansion leading to NIM rise to above 5% by exit-FY24E.

Opex contained, but likely to rise in coming quarters

Both staff and non-staff costs showed sharp moderation. Staff costs declined 4.5% QoQ while non-staff opex increased just 1% QoQ. Overall opex declined by ~1% QoQ. However, the bank reiterated that opex growth is likely to pick-up putting pressure on the cost-to-income ratio over the coming quarters.

Financial summary

Y/E March	FY22A	FY23A	FY24E	FY25E
NII (INR bn)	40.3	44.5	54.0	61.7
Op. profit (INR bn)	27.5	22.0	27.7	31.6
Net Profit (INR bn)	(0.7)	8.8	11.2	13.0
EPS (INR)	(1.3)	14.7	18.8	21.6
EPS % change YoY	(113.4)	(1,277.9)	27.4	15.2
ABV (INR)	200.4	216.8	232.2	248.8
P/BV (x)	1.1	1.0	0.9	0.9
P/ABV (x)	1.1	1.0	1.0	0.9
Return on Assets (%)	(0.1)	0.8	0.9	0.9
Return on Equity (%)	(0.6)	6.7	8.0	8.7

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Market Data

Market Cap (INR)	133bn
Market Cap (USD)	1,620mn
Bloomberg Code	RBK IN
Reuters Code	RATB BO
52-week Range (INR)	231 /89
Free Float (%)	99.0
ADTV-3M (mn) (USD)	27

Price Performance (%)	3m	6m	12m
Absolute	46.3	37.9	140.3
Relative to Sensex	11.8	10.3	20.4

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
PAT	3	2

Previous Reports

16-06-2023: Company update
01-05-2023: Q4FY23 results review

Asset quality broadly stable though credit costs have almost bottomed out

Gross slippages improved QoQ to INR 5.55bn though they remain relatively elevated at 3.1% (annualised). Net slippages remained flattish QoQ at INR 2.9bn. Wholesale slippages were well contained at INR 320mn and, adjusted for TWO recoveries, turned negative. MFI slippages also sustained their improving trajectory. However, credit card slippages inched up from INR 2.0bn-2.5bn run-rate in the last several quarters to INR 3.17bn (in Q1FY24). Overall GNPAs declined 1% QoQ; ratio declined 15bps QoQ to 3.22%. PCR inched up 160bps to 69.6%. Net NPAs improved by 10bps to 1.0%. Restructured book declined QoQ to 1.0% of loans. Bank mentioned that slippages are getting close to normalised levels and thus credit costs had already improved significantly in FY23 (vs FY22), hence may have bottomed out.

Valuations and view

We believe RBL's strategy to grow exponentially in secured retail products (housing, wheels, SBL, gold) is reasonably scalable, NIM-accretive and less risky though it is more cost-intensive. We build-in a loan CAGR of ~15% during FY23-FY25E, which is lower than the management guidance (of 20%), due to our view of: 1) phased build-up of newly launched retail assets, 2) pressure on wholesale loans amidst higher competitive intensity, and 3) slower deposit growth so far. We estimate RoA at ~0.9% each year for FY24E/FY25E and single-digit RoE during the same period. We raise our target price to INR 200 (earlier: INR 170) valuing the bank at ~0.8x FY25E ABV (vs 0.7x earlier). Post a sharp 28% rise in the stock price in the last ~1 month, we downgrade it to **REDUCE** (from ***Hold*** earlier).

Key risk is strong execution leading to better than expected growth and RoAs.

Q1FY24 earnings call takeaways

Asset quality

- Microfinance
    - Gross slippage at INR 0.41bn
    - Recoveries and upgrades at INR 0.27bn
    - Net slippages at INR 0.14bn
- Credit card
    - Gross slippage at INR 3.17bn
    - Recoveries and upgrades at INR 0.37bn
    - Net slippages at INR 2.75bn
- Other retail
    - Gross slippage at INR 1.7bn
    - Net slippages at INR 0.32bn
- Wholesale
    - Gross slippage at INR 0.32bn. However, including TWO recoveries (INR 0.65bn), the net slippages would be negative.
- Maintains overall credit costs at 1.5-2.0% range. The bank provides 100% in the newly launched products within 6-9 months of NPA.

Margins

- Margins are likely to trend upwards from hereon

- **Bank would claw back to ~5% margins in the next 1-2 quarters and around 5-5.1% by Q4. Hence, margins should average around 5% for FY24.**
- Margins were lower QoQ due to repricing of deposits
- ***As bank moves mix from wholesale to retail loans, it would add to margins***
- *Expect addition of 10-15bps on cost of deposits, while bank should be able to add more on yields side due to mix*
- *Repricing on the asset side is largely done away with. Hence, improvement in credit yield would largely come from mix.*
- *It has not changed asset pricing on fixed rate products. Predominantly fixed portfolio is microfinance and cards.*
- There is no change in TD as well as SA rate in Q1FY24
- Recently, bank has added a new product which is paying 20bps higher but non-callable in nature
- **Advances mix: Floating EBLR 44%, MCLR 10% and rest fixed.**
- *Tractor and Auto would also be fixed in nature, but currently portfolio size is very small*

Profit and Loss

- Expect cost to income to marginally climb in the next 2 quarters before trending down.
- ***Looking to add 70-80 branches during the year***

Advances

- Advance growth is expected to grow in the range of 20-22% and under that retail is expected to grow at more than 30% run-rate
- *On asset side, there are various assets which are eligible for good quality refinance borrowings. Hence, refinance would substitute bulk deposits.*
- *Bajaj portfolio performs 50bps better than open market portfolio*
- *Because of easy EMI through cards, revolve rates are lower and hence large part are also being converted into EMI vs. revolve*
- *Disbursements in housing and LAP have been increasing consistently. INR 7bn disbursements under housing in Q. however, the o/s has declined as the bank has disassociated a large business correspondent.*

Capital

- ***Aiming at exit RoA of 1.2% for FY24-end***
- Bank is adequately capitalised and not looking to raise capital currently

Deposits

- On deposits, bigger focus is retail TD
- ***CD ratio likely to remain in the range of 85-87%***
- 43-44% of deposits is extremely granular and rest would be bulk deposits
- Retail LCR is likely to improve 2-3% per annum
- ***Overall, deposits growth would lag loan growth***

Q4FY23 earnings call takeaways

Q4FY23 performance

- Crossed highest ever quarterly and annual PAT for Q4FY23 and FY23
- ***RoA at 1%, up 22bps YoY as well as QoQ***

Growth

- Bank had planned for 15% advances growth and 20% retail growth at the start of the year. ***Bank has ended FY23 with 17% YoY and 5% QoQ advances growth and retail was up 21% YoY and 8% QoQ***
- *Housing saw disbursal of INR 9bn and tractors disbursements at INR 3bn for the quarter*
- Core business include commercial banking, credit cards (will continue to grow at 20-25%) and microfinance
- In another 6 months, core business will also include housing business
- Bank has ~0.5% market share and hence given its low scale, it would be grow at a higher than industry pace
- Bank has established some new practices/processes in retail, benefits of which should flow in FY24

Deposits

- CASA at 37.4% and Retail LCR at 42.8%
- Deposits below *INR* 20mn are up 19% YoY and 5% QoQ

Asset quality

- GNPA and NNPA lower QoQ (in % terms)
- PCR at 68%, flat QoQ
- Provisions at *INR* 2.84bn vs. *INR* 3.39bn QoQ
- Recoveries from w/of at *INR* 12.03bn
- ***Credit cost would be in the range of 1.5%-2% for FY24***
- ***Bank will look to operate at PCR in the range of 68-70%***
- Overall, stable asset quality and good recovery trend

Slippages

- *Overall INR 6.81bn gross slippages, INR 3.85bn recoveries and upgrades, net slippages at INR 2.95bn*
- *INR 1.16bn wholesale gross slippages and INR 1.3bn recoveries and upgrades and hence negative net slippages*
- *Microfinance gross slippage at INR 0.71bn, recoveries and upgrades at INR 0.32bn and net slippage at INR 0.39bn*
- *Cards gross slippage at INR 2.38bn, recoveries and upgrades at INR 0.37bn and net slippages at INR 2bn (flat QoQ)*
- *Other retail at INR 2.57bn (INR 0.96bn out of order circular of regulators which were upgraded) and net slippages was INR 0.7bn*

FY24-26 goals

- **Targeting 20% growth in advances as well as deposits**
- Average CASA growth of 1-2% every year
- 10-20 per annum rise in RoA and 100-150bps rise in RoE
- Double customer count to 26mn
- Focus on building granularity in retail deposit franchise
- On loan book, aim is to improve market position in credit cards and microfinance further in this cycle
- Cross-sell through contact center, BC touch-points

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Margins

- Fixed:floating mix is 45:55
- Rise in margins over the past 3 quarters is due to change in mix, utilisation of excess liquidity and leadlag impact of deposit rates and lending yields
- Bank believes that margins are likely to be stable since rise in deposit cost, if any is likely to be offset by change in loan mix

Cards

- Actual spend growth YoY for FY23 has been tremendous due to use of credit cards for various non-conventional purpose as well.
- Revolve rates are expected to increase by 100-200bps in FY24
- Looking at granular deposits growth of 20% and confident of achieving the same
- Credit cards provisions at 29bps vs 39bps
- 550k card issuances during the quarter
- ***Credit card business credit cost is 4% (provide NPA in 180days)***
- ***Credit card portfolio is expected to grow in the range of 20-24%***

Miscellaneous

- Expecting small bump-up in 2W and car, opex is largely done away with for other segments
- Comfortable with current capital buffers and don't expect to raise capital in the next 18 months

Exhibit 1: Q1FY24 result snapshot

	Q1FY23	Q1FY24	YoY (%)	Q4FY23	QoQ (%)
Financial highlights (INR mn)					
Interest Earned	20,893	26,799	28.3	24,962	7.4
Interest Expended	10,616	14,337	35.0	12,850	11.6
Net Interest Income	**10,277**	**12,462**	**21.3**	**12,112**	**2.9**
Other Income	6,136	6,854	11.7	6,741	1.7
Total Income	27,029	33,653	24.5	31,703	6.1
Total Net Income	**16,413**	**19,316**	**17.7**	**18,853**	**2.5**
Staff Expenses	3,090	3,412	10.4	3,574	-4.5
Other operating expenses	8,032	9,429	17.4	9,341	0.9
Operating Profit	**5,291**	**6,475**	**22.4**	**5,938**	**9.0**
Provision & Contingencies	2,530	2,662	5.2	2,347	13.4
Provision for tax	750	932	24.3	880	5.9
Reported Profit	**2,012**	**2,881**	**43.2**	**2,711**	**6.3**
Other Highlights (INR bn)	**Q1FY23**	**Q1FY24**	**YoY (%)**	**Q4FY23**	**QoQ (%)**
Advances	603	731	21.3	702	4.1
Deposits	792	856	8.1	849	0.9
Gross NPA	25.4	24.0	-5.2	24.2	-0.6
Gross NPA (%)	4.08	3.22	-86 bps	3.37	-15 bps
Net NPA	7.0	7.3	4.7	7.7	-5.5
Net NPA (%)	1.16	1.00	-16 bps	1.10	-10 bps
Provision Coverage (%)	72.5	69.6	-287 bps	68.1	157 bps

Source: Company data, I-Sec research

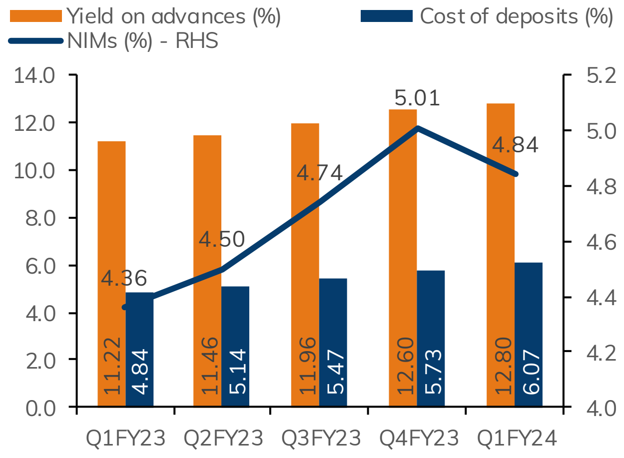
Exhibit 2: Loan mix

(INR mn)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY %	QoQ %
C&IB	2,31,110	2,31,190	2,42,140	2,46,430	2,47,190	7.0	0.3
Commercial Banking	66,450	71,370	74,930	77,880	75,020	12.9	(3.7)
Wholesale	**2,97,560**	**3,02,560**	**3,17,070**	**3,24,310**	**3,22,210**	**8.3**	**(0.6)**
Business Loans	75,470	73,500	68,820	66,560	75,320	(0.2)	13.2
Credit Cards	1,40,360	1,46,440	1,54,710	1,65,940	1,76,650	25.9	6.5
Microfinance	37,530	45,840	50,210	59,630	65,170	73.6	9.3
Housing Loans	25,630	34,500	41,420	45,830	45,410	77.2	(0.9)
Retail Agri	12,010	12,130	12,600	13,570	13,510	12.5	(0.4)
Rural Vehicle Finance	4,230	5,400	7,770	10,290	12,420	193.6	20.7
Others	9,900	9,050	14,250	15,970	20,170	103.7	26.3
Retail	**3,05,140**	**3,26,860**	**3,49,770**	**3,77,780**	**4,08,660**	**33.9**	**8.2**
Total Advances	**6,02,700**	**6,29,420**	**6,66,840**	**7,02,090**	**7,30,870**	**21.3**	**4.1**

(% of total)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (bps)	QoQ (bps)
C&IB	38	37	36	35	34	-452 bps	-128 bps
Commercial Banking	11	11	11	11	10	-76 bps	-83 bps
Wholesale	**49**	**48**	**48**	**46**	**44**	**-529 bps**	**-211 bps**
Business Loans	13	12	10	9	10	-222 bps	83 bps
Credit Cards	23	23	23	24	24	88 bps	53 bps
Microfinance	6	7	8	8	9	269 bps	42 bps
Housing Loans	4	5	6	7	6	196 bps	-31 bps
Retail Agri	2	2	2	2	2	-14 bps	-8 bps
Rural Vehicle Finance	1	1	1	1	2	100 bps	23 bps
Others	2	1	2	2	3	112 bps	49 bps
Retail	**51**	**52**	**52**	**54**	**56**	**529 bps**	**211 bps**
Total Advances	**100**	**100**	**100**	**100**	**100**		

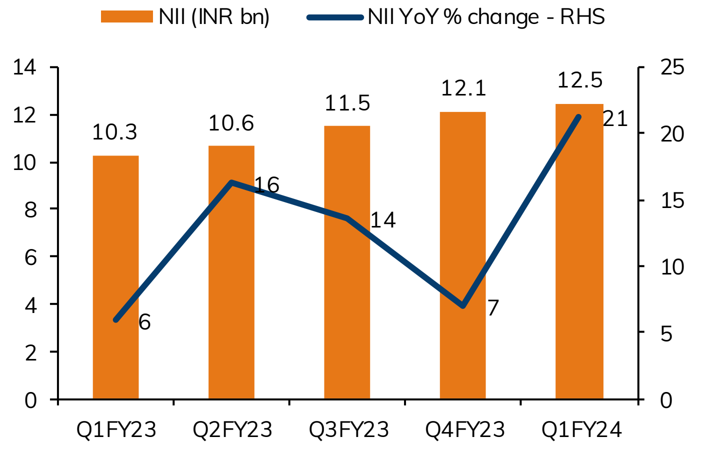
Source: Company data, I-Sec research

Exhibit 3: Higher QoQ deposit cost weighs on margins



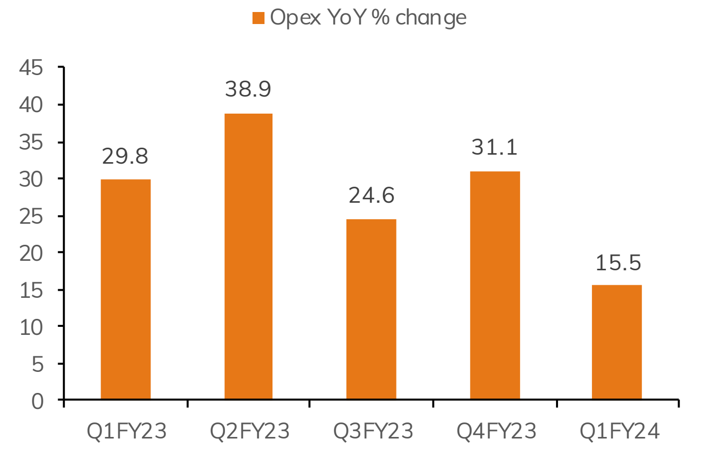
Source: Company data, I-Sec research

Exhibit 4: Pick-up in NII growth



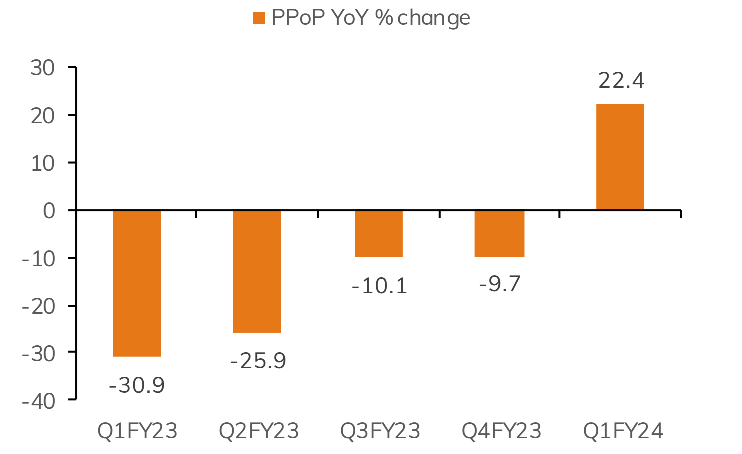
Source: Company data, I-Sec research

Exhibit 5: Opex growth moderated in Q1FY24, but likely to pick pace in coming quarters



Source: Company data, I-Sec research

Exhibit 6: Strong PPoP growth led by lower opex YoY and higher NII YoY



Source: Company data, I-Sec research

Exhibit 7: Asset quality improvement continues

(%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
GNPA	4.08	3.80	3.61	3.37	3.22
NNPA	1.16	1.26	1.18	1.10	1.00
PCR	72.5	67.8	68.0	68.1	69.6
Ann. slippages (as a % of loans)	4.33	5.16	3.65	3.88	3.04

Source: Company data, I-Sec research

Exhibit 8: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	0.0	0.0	0.0
Institutional investors	49.2	44.9	46.6
MFs and other	14.5	13.7	11.6
Banks/ FIs	0.9	0.9	0.9
Insurance Cos.	3.9	3.9	3.9
FIIs	29.9	26.4	30.2
Others	50.8	55.1	53.4

Source: Bloomberg, I-Sec research

Exhibit 9: Price chart

Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Interest income	81,758	91,299	1,12,537	1,31,371
Interest expense	41,491	46,784	58,518	69,624
Net interest income	**40,267**	**44,515**	**54,018**	**61,747**
Non-interest income	23,405	24,894	29,487	34,969
Operating income	**63,673**	**69,409**	**83,506**	**96,716**
Operating expense	36,220	47,384	55,771	65,091
Staff expense	10,015	13,403	16,497	19,123
Operating profit	**27,453**	**22,025**	**27,734**	**31,625**
Core operating profit	**24,961**	**20,425**	**26,034**	**29,825**
Provisions & Contingencies	28,604	10,219	12,698	14,298
Pre-tax profit	**(1,151)**	**11,805**	**15,037**	**17,327**
Tax (current + deferred)	(404)	2,978	3,789	4,366
Net Profit	**(747)**	**8,827**	**11,247**	**12,961**
Adjusted net profit	**(747)**	**8,827**	**11,247**	**12,961**

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Cash and balance with RBI/Banks	1,75,477	85,200	1,33,545	1,19,977
Investments	2,22,744	2,88,755	3,10,619	3,36,345
Advances	6,00,218	7,02,094	8,09,711	9,33,160
Fixed assets	5,481	5,740	8,545	12,465
Other assets	58,166	76,974	1,02,386	1,37,517
Total assets	**10,62,086**	**11,58,762**	**13,64,807**	**15,39,464**
Deposits	7,90,065	8,48,865	9,92,162	11,53,547
Borrowings	1,10,930	1,33,313	1,20,712	1,09,370
Other liabilities and provisions	34,908	40,818	1,07,387	1,21,881
Share capital	5,995	5,996	5,996	5,996
Reserve & surplus	1,20,187	1,29,770	1,38,551	1,48,670
Total equity & liabilities	**10,62,086**	**11,58,762**	**13,64,807**	**15,39,464**
% Growth	5.5	9.1	17.8	12.8

Source Company data, I-Sec research

Exhibit 12: Growth ratio

(INR mn, year ending March)

	FY22A	FY23A	FY24E	FY25E
Net Interest Income	6.3	10.5	21.3	14.3
Operating profit	(5.9)	(19.8)	25.9	14.0
Core operating profit	(5.6)	(18.2)	27.5	14.6
Profit after tax	(114.7)	(1,281.1)	27.4	15.2
EPS	(113.4)	(1,277.9)	27.4	15.2
Advances	2.4	17.0	15.3	15.2
Deposits	8.0	7.4	16.9	16.3
Book value per share	(0.6)	7.6	6.5	7.0
Adj Book value per share	2.1	8.2	7.1	7.2

Source Company data, I-Sec research

Exhibit 13: Key ratios

(Year ending March)

	FY22A	FY23A	FY24E	FY25E
No. of shares and per share data				
No. of shares (mn)	600	600	600	600
Adjusted EPS	(1.3)	14.7	18.8	21.6
Book Value per share	210	226	241	258
Adjusted BVPS	200	217	232	249
Valuation ratio				
PER (x)	(177.3)	15.1	11.8	10.3
Price/ Book (x)	1.1	1.0	0.9	0.9
Price/ Adjusted book (x)	1.1	1.0	1.0	0.9
Dividend Yield (%)	-	0.7	1.9	2.1
Profitability ratios (%)				
Yield on advances	10.6	11.0	11.7	12.0
Yields on Assets	7.9	8.2	8.9	9.0
Cost of deposits	4.7	5.2	5.8	5.9
Cost of funds	4.0	4.2	4.6	4.8
NIMs	4.2	4.3	4.7	4.7
Cost/Income	56.9	68.3	66.8	67.3
DuPont Analysis (as % of Avg Assets)				
Interest Income	7.9	8.2	8.9	9.0
Interest expended	4.0	4.2	4.6	4.8
Net Interest Income	**3.9**	**4.0**	**4.3**	**4.3**
Non-interest income	2.3	2.2	2.3	2.4
Trading gains	0.2	0.1	0.1	0.1
Fee income	2.0	2.1	2.2	2.3
Total Income	**6.2**	**6.3**	**6.6**	**6.7**
Total Cost	**3.5**	**4.3**	**4.4**	**4.5**
Staff costs	1.0	1.2	1.3	1.3
Non-staff costs	2.5	3.1	3.1	3.2
Operating Profit	**2.7**	**2.0**	**2.2**	**2.2**
Core Operating Profit	2.4	1.8	2.1	2.1
Non-tax Provisions	2.8	0.9	1.0	1.0
PBT	**(0.1)**	**1.1**	**1.2**	**1.2**
Tax Provisions	0.0	0.3	0.3	0.3
Return on Assets (%)	**(0.1)**	**0.8**	**0.9**	**0.9**
Leverage (x)	8.2	8.5	9.0	9.7
Return on Equity (%)	**(0.6)**	**6.7**	**8.0**	**8.7**
Asset quality ratios (%)				
Gross NPA	4.4	3.4	2.9	2.6
Net NPA	1.3	1.1	0.9	0.8
PCR	70.4	68.1	70.0	70.0
Gross Slippages	6.7	4.6	3.5	3.0
LLP / Avg loans	4.3	2.2	1.7	1.7
Total provisions / Avg loans	4.8	1.6	1.7	1.6
Net NPA / Networth	6.4	5.7	4.9	4.8
Capitalisation ratios (%)				
Core Equity Tier 1	16.2	15.3	13.6	12.7
Tier 1 cap. adequacy	16.2	15.3	13.6	12.7
Total cap. adequacy	16.8	16.9	15.0	13.9

Source Company data, I-Sec research

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