

BUY**RBL Bank****Emkay**[®]

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Stable NIMs; but reversible AIF provisions cause earnings miss

BFSI - Banks ▶ Result Update ▶ January 21, 2024

TARGET PRICE (Rs): 350

RBL continued to report stable NIMs at 5.5%, but higher AIF provisions (Rs1.15bn) partly offset by lower tax incidence led to a 23% earnings miss, with PAT at Rs2.3bn/0.7% RoA. However, the management contends that none of the bank's AIF investments that have been done over the past 10 years are of the nature of ever greening of NPAs. These investments are in-the-money and will have natural redemption at beginning-4Q, apart from sell-off by the bank. Though headline GNPA ratio remained largely flat at 3.1%, the bank reported slightly higher slippages (3.3% of loans) mainly due to stress in Cards/MFI. Thus, Bank has been proactively building contingent provisions (1% on Cards + MFI), which it plans to further shore-up over FY24-26E. Factoring-in the one-off AIF hit and some growth moderation, we cut FY24E earnings by 9%, while retaining estimates for FY25-26E. We expect the bank to deliver 1-1.4% RoA/8-14% RoE over FY24-26E, while the recent retirement of the RBI nominee director from the bank's Board eases regulatory concerns. We retain BUY on RBL with TP of Rs350, implying 1.2x Dec-25E ABV.

RBL Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Net profit	(748)	8,756	11,747	17,920	24,758
Loan growth (%)	2.4	17.0	20.0	21.4	23.2
NII growth (%)	6.3	24.1	20.8	16.6	20.4
NIM (%)	4.2	4.9	5.3	5.3	5.2
PPOP growth (%)	(5.9)	(20.0)	33.5	32.0	37.6
Adj. EPS (Rs)	(1.2)	14.6	19.6	29.8	41.1
Adj. EPS growth (%)	(113.6)	NA	33.9	52.2	38.2
Adj. BV (INR)	200.7	216.8	235.4	260.3	295.9
Adj. BVPS growth (%)	(5.4)	8.0	8.6	10.6	13.7
RoA (%)	(0.1)	0.8	1.0	1.2	1.4
RoE (%)	(0.6)	6.7	8.3	11.6	14.2
P/E (x)	(215.2)	18.4	13.8	9.0	6.5
P/ABV (x)	1.3	1.2	1.1	1.0	0.9

Source: Company, Emkay Research

Healthy growth, better portfolio mix lead to stable margins

RBL Bank reported 20% YoY/5% QoQ credit growth during Q3, mainly led by strong growth in retail and SME. Within retail, the bank continues to see growth in Cards, VF and the mortgage book, while MFI growth was slightly slower, as the bank had turned a tad cautious due to elections in a few states. Within Cards, the bank has been focusing on growing the non-BAF book by way of partnerships and mining of ETB customers. Overall deposit growth remained moderate at 13% YoY/3% QoQ, while CASA ratio slipped to 34%. However, better loan yields and portfolio mix helped the bank maintain margins at 5.5%.

Bank plans to shore-up contingent buffer

Gross slippages remain elevated at Rs6.7bn/3.3% of loans, but a higher write-off led to GNPA ratio of nearly 3.1%. The bank expects asset quality to steadily improve, with incremental stress flow from the back-book, including MFI/cards moderating. The bank holds healthy specific PCR at 75%, while it carries a contingent provision buffer of Rs2.1bn (0.3% of loans), mainly on its Card/MFI portfolio (~1% of loans). The bank has guided for further shoring-up the contingent buffer to 2.5% of its Cards/MFI portfolio which, we believe, could keep LLP elevated over FY24-26E.

We retain BUY

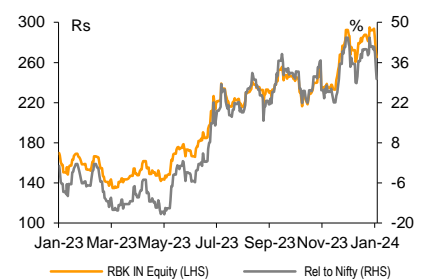
Factoring-in the one-off AIF hit and some moderation in growth, we cut our earnings estimates for FY24E by 9%, while retaining estimates for FY25-26E. We expect the bank to deliver 1-1.4% RoA/8-14% RoE over FY24-26E, while the recent retirement of the RBI nominee director on the bank's Board eases regulatory concerns. We retain BUY on the stock, with TP of Rs350/share, implying 1.2x Dec-25E ABV. Key risks: The inherent asset-quality risk in Cards/business loans and the sub-par liability profile could hurt the growth/margin trajectory.

Target Price – 12M	Dec-24
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	32.0
CMP (19-Jan-24) (Rs)	265.3

Stock Data	Ticker
52-week High (Rs)	301
52-week Low (Rs)	132
Shares outstanding (mn)	603.6
Market-cap (Rs bn)	160
Market-cap (USD mn)	1,928
Net-debt, FY24E (Rs mn)	NA
ADTV-3M (mn shares)	12
ADTV-3M (Rs mn)	3,080.3
ADTV-3M (USD mn)	37.1
Free float (%)	99.0
Nifty-50	21,622
INR/USD	83.1
Shareholding, Dec-23	
Promoters (%)	-
FPIs/MFs (%)	28.3/19.7

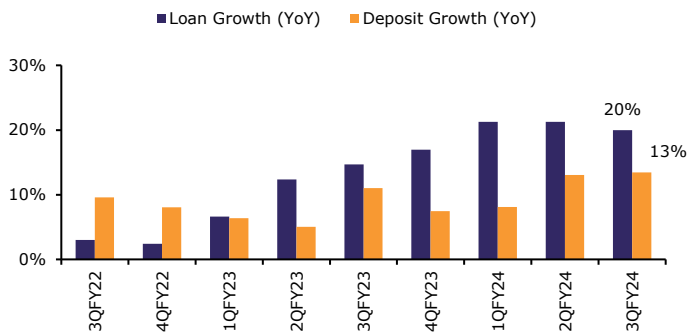
Price Performance

(%)	1M	3M	12M
Absolute	(7.3)	8.0	58.5
Rel. to Nifty	(8.1)	(2.0)	32.8

1-Year share price trend (Rs)**Anand Dama**anand.dama@emkayglobal.com
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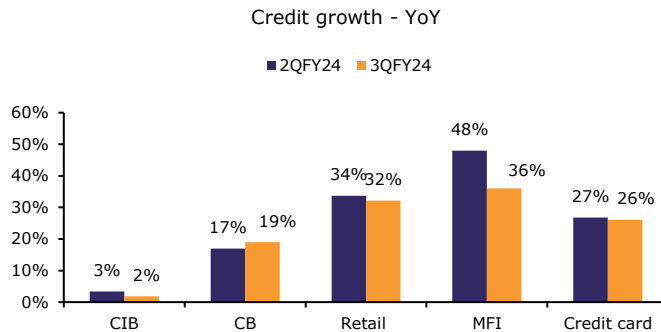
Story in Charts

Exhibit 1: Bank continues to report healthy credit growth, but deposit growth lags...



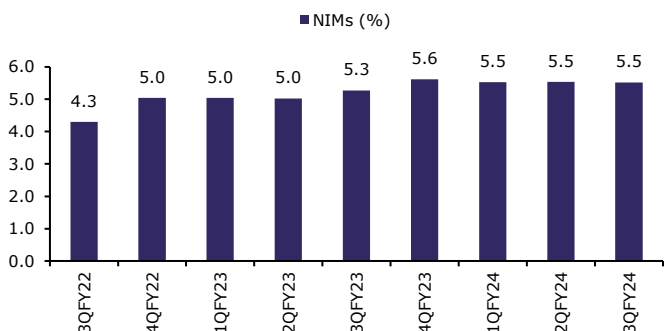
Source: Company, Emkay Research

Exhibit 2: ...while retail (incl. MFI, Cards) CB growth stays strong



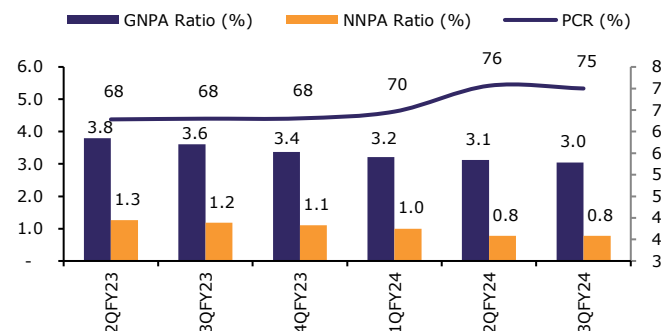
Source: Company, Emkay Research

Exhibit 3: Higher LDR, better yields lead to stable NIMs



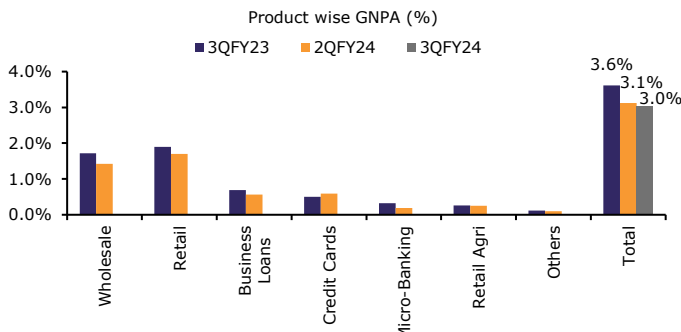
Source: Company, Emkay Research

Exhibit 4: Headline NPAs remain largely stable



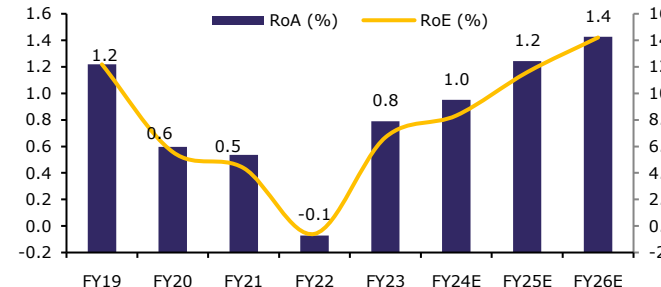
Source: Company, Emkay Research

Exhibit 5: Cards, MFI NPAs inch up a bit



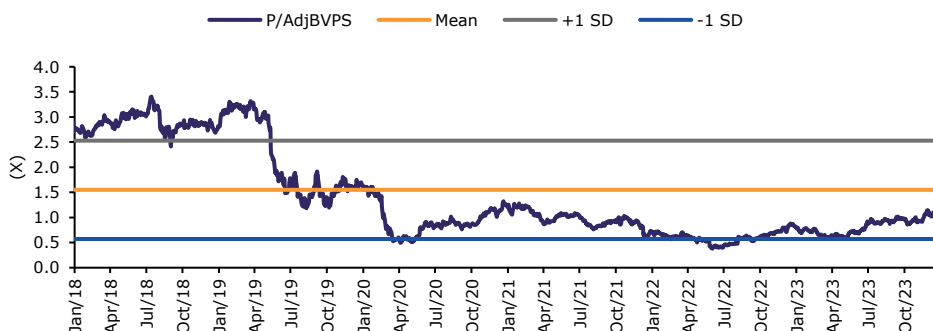
Source: Company, Emkay Research

Exhibit 6: We expect better fees, operating leverage to drive RoA/RoE improvement



Source: Company, Emkay Research

Exhibit 7: The stock currently trades at 1.2x one-year forward P/ABV



Source: Bloomberg, Emkay Research

Exhibit 8: Actuals vs Estimates(Q3FY24)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	23,234	23,136	20,175	0%	15%	Stable margins lead to in-line net income
PPOP	7,653	7,752	6,760	-1%	13%	Marginally higher opex leads to a slight miss on PPOP
PAT	2,328	3,013	2,712	-23%	-14%	One-off AIF provisions partly offset by lower tax lead to a miss on PAT

Source: Company, Emkay Research

Exhibit 9: Quarterly summary (Q3FY24)

(Rs mn)	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)	FY23A	FY24E	YoY (%)
Interest Earned	24,976	26,422	28,559	30,080	31,914	6	6	96,764	1,23,902	28
Interest Exp	12,205	12,850	14,337	15,330	16,455	7	7	46,784	63,551	36
Net Interest Income	12,772	13,572	14,222	14,750	15,459	5	5	49,980	60,351	21
Global NIMs (reported)	5.27	5.62	5.53	5.54	5.52	25bps	-2bps	4.86	5.29	43bps
Non-interest Income	6,184	6,741	6,854	7,044	7,776	10	10	24,823	29,845	20
Operating Expenses	13,290	14,380	14,600	14,484	15,582	8	8	52,850	60,883	15
Pre Provisioning Profit	5,666	5,933	6,476	7,310	7,653	5	5	21,954	29,312	34
Provision & Contingencies	2,927	2,347	2,662	6,404	4,581	-28	-28	10,219	16,572	62
PBT	2,738	3,586	3,814	906	3,071	239	239	11,734	12,740	9
Income Tax Expense (Gain)	655	880	932	-2,035	740	-136	-136	2,978	994	-67
Net Profit/(Loss)	2,084	2,706	2,882	2,941	2,331	-21	-21	8,756	11,747	34
Gross NPA (%)	3.61	3.37	3.22	3.12	3.12	-49bps	-1bps	3.37	3.03	-33bps
Net NPA (%)	1.18	1.10	1.00	0.78	0.80	-38bps	2bps	1.10	0.78	-32bps
Deposits (Rs bn)	817	849	856	898	927	3	3	849	966	14
Net Advances (Rs bn)	667	702	731	763	799	5	5	702	843	20

Source: Company, Emkay Research

Exhibit 10: Revision in Estimates

Y/E Mar (Rs mn)	FY24E			FY25E			FY26E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	90,538	90,196	-0.4%	1,10,548	1,08,065	-2.2%	1,36,266	1,31,913	-3.2%
PPOP	29,655	29,312	-1.2%	40,828	38,689	-5.2%	56,605	53,235	-6.0%
PAT	12,971	11,747	-9.4%	17,926	17,920	0.0%	24,436	24,758	1.3%
EPS (Rs)	21.6	19.6	-9.6%	29.9	29.8	-0.4%	40.8	41.1	0.9%
BV (Rs)	246.1	243.6	-1.0%	273.5	270.3	-1.1%	311.2	308.5	-0.9%

Source: Emkay Research

Exhibit 11: Key Assumptions

(%)	FY23A	FY24E	FY25E	FY26E
Loan Growth	17.0	20.0	21.4	23.2
Deposit Growth	7	13.8	21.8	25.3
NIM	4.9	5.3	5.3	5.2
GNPA	3.4	3.0	2.8	2.6
Credit Cost	1.3	2.0	1.7	1.8

Source: Emkay Research

Exhibit 12: Key Ratios and Trends

	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24
Loans (Rs mn)	5,81,410	6,00,218	6,02,700	6,29,417	6,66,840	7,02,094	7,30,870	7,63,242	7,99,490
Loans YoY (%)	3.0	2.4	6.6	12.4	14.7	17.0	21.3	21.3	19.9
Loans QoQ (%)	3.8	3.2	0.4	4.4	5.9	5.3	4.1	4.4	4.7
Liability Profile (%)									
CASA	34.4	35.3	36.0	36.2	36.6	37.3	37.3	35.7	33.8
CA	14.7	14.6	15.4	14.8	15.7	17.4	17.7	16.5	15.0
SA	19.7	20.7	20.6	21.4	20.9	19.9	19.6	19.2	18.8
No. of Branches	463	502	502	507	516	517	520	528	538
NIM	4.30	5.04	5.04	5.02	5.27	5.62	5.53	5.54	5.52
Yield on Advances	11.30	12.22	11.22	11.46	11.96	12.60	12.80	14.03	14.00
Cost of Deposits	4.80	4.75	4.84	5.19	5.55	5.85	6.15	6.21	6.31
Asset Quality									
GNPA (%)	4.8	4.4	4.1	3.8	3.6	3.4	3.2	3.1	3.1
NNPA (%)	1.9	1.3	1.2	1.3	1.2	1.1	1.0	0.8	0.8
PCR (%)	62.9	70.4	72.5	67.8	68.0	68.1	69.6	75.6	75.1
Slippages (Rs mn)	7,660	6,190	6,530	8,120	6,080	6,810	5,550	5,410	6,660
Slippages - annualized (%)	5.4	4.2	4.6	5.8	4.2	4.5	3.7	3.4	4.0
CAR (%)	16.6	16.8	17.5	17.4	17.0	17.0	16.7	16.5	15.7
Tier I (%)	15.8	16.2	16.0	15.9	15.5	15.3	15.1	15.2	14.6
ROE Decomposition % (on total assets)									
NII	3.9	4.3	4.4	4.4	4.7	4.8	4.9	4.9	4.9
Other Income (Ex Treasury)	2.2	2.0	2.0	2.0	2.2	2.3	2.2	2.2	2.3
Treasury	0.1	(0.0)	0.3	0.1	0.1	0.0	0.2	0.1	0.2
Opex	3.7	3.8	4.8	4.6	4.9	5.1	5.0	4.8	5.0
PPOP	2.4	2.5	2.0	1.9	2.1	2.1	2.2	2.4	2.4
Provisioning Cost	1.6	1.5	0.9	0.9	1.1	0.8	0.9	2.1	1.5
PBT	0.8	1.0	1.0	1.0	1.0	1.3	1.3	0.3	1.0
Tax	0.2	0.2	0.3	0.3	0.2	0.3	0.3	(0.7)	0.2
ROA	0.6	0.8	0.7	0.8	0.8	1.0	1.0	1.0	0.7
ROE	5.1	6.3	6.3	6.2	6.3	8.1	8.4	8.4	6.5

Source: Company, Emkay Research

RBL Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest Income	81,758	96,764	1,23,902	1,42,973	1,70,055
Interest Expense	41,491	46,784	63,551	72,583	85,296
Net interest income	40,267	49,980	60,351	70,390	84,759
NII growth (%)	6.3	24.1	20.8	16.6	20.4
Other income	23,405	24,823	29,845	37,675	47,154
Total Income	63,673	74,803	90,196	1,08,065	1,31,913
Operating expenses	36,220	52,850	60,883	69,376	78,678
PPOP	27,453	21,954	29,312	38,689	53,235
PPOP growth (%)	(5.9)	(20.0)	33.5	32.0	37.6
Core PPOP	24,961	20,732	27,113	35,830	49,803
Provisions & contingencies	28,605	10,219	16,572	14,742	20,149
PBT	(1,152)	11,734	12,740	23,947	33,086
Extraordinary items	0	0	0	0	0
Tax expense	(404)	2,978	994	6,028	8,328
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	(748)	8,756	11,747	17,920	24,758
PAT growth (%)	(114.7)	(1,270.0)	34.1	52.6	38.2
Adjusted PAT	(748)	8,756	11,747	17,920	24,758
Diluted EPS (Rs)	(1.2)	14.6	19.6	29.8	41.1
Diluted EPS growth (%)	(112.9)	(1,268.5)	33.9	52.2	38.2
DPS (Rs)	0.0	1.5	2.0	2.5	3.0
Dividend payout (%)	0.0	10.3	10.2	8.4	7.3
Effective tax rate (%)	35.0	25.4	7.8	25.2	25.2
Net interest margins (%)	4.2	4.9	5.3	5.3	5.2
Cost-income ratio (%)	56.9	70.7	67.5	64.2	59.6
Shares outstanding (mn)	599.5	599.6	602.0	602.0	602.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Asset quality					
Gross NPLs	27,283.9	24,198.5	26,150.7	28,811.3	33,623.8
Net NPLs	8,065.6	7,725.4	6,537.7	8,067.2	10,087.1
GNPA ratio (%)	4.4	3.4	3.0	2.8	2.6
NNPA ratio (%)	1.3	1.1	0.8	0.8	0.8
Provision coverage (%)	70.4	68.1	75.0	72.0	70.0
Gross slippages	39,434.4	27,547.0	24,402.5	26,605.6	32,083.3
Gross slippage ratio (%)	6.4	3.8	2.8	2.6	2.5
LLP ratio (%)	4.6	1.3	2.0	1.7	1.8
NNPA to networth (%)	6.1	5.5	4.3	4.8	5.2
Capital adequacy					
Total CAR (%)	16.8	16.9	16.0	14.9	14.0
Tier-1 (%)	16.2	15.3	14.5	13.5	12.8
CET-1 (%)	16.2	15.3	14.5	13.5	12.8
RWA-to-Total Assets (%)	71.5	73.5	74.0	74.0	74.0
Miscellaneous					
Total income growth (%)	3.0	15.6	26.4	17.5	20.2
Opex growth (%)	31.5	45.9	15.2	13.9	13.4
Core PPOP growth (%)	(5.6)	(16.9)	30.8	32.2	39.0
PPOP margin (%)	26.1	18.1	19.1	21.4	24.5
PAT/PPOP (%)	(2.7)	39.9	40.1	46.3	46.5
LLP-to-Core PPOP (%)	114.6	49.3	61.1	41.1	40.5
Yield on advances (%)	10.8	11.9	13.2	12.9	12.6
Cost of funds (%)	4.8	5.0	6.0	5.9	5.6

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share capital	5,995	5,996	6,020	6,020	6,020
Reserves & surplus	1,20,187	1,29,770	1,40,314	1,56,729	1,79,684
Net worth	1,26,182	1,35,766	1,46,334	1,62,749	1,85,704
Deposits	7,90,065	8,48,865	9,66,024	11,76,895	14,74,571
Borrowings	1,10,930	1,33,313	1,53,815	1,81,727	2,14,484
Interest bearing liab.	9,00,996	9,82,178	11,19,839	13,58,622	16,89,055
Other liabilities & prov.	34,908	40,818	46,176	47,119	29,380
Total liabilities & equity	10,62,086	11,58,762	13,12,349	15,68,491	19,04,138
Net advances	6,00,218	7,02,094	8,42,667	10,22,615	12,59,795
Investments	2,22,744	2,88,754	2,85,938	3,37,586	4,03,510
Cash, other balances	1,75,477	85,200	91,827	1,05,973	1,26,679
Interest earning assets	9,98,439	10,76,048	12,20,431	14,66,173	17,89,984
Fixed assets	5,481	5,740	7,163	8,387	9,850
Other assets	58,166	76,974	84,754	93,930	1,04,304
Total assets	10,62,086	11,58,762	13,12,349	15,68,491	19,04,138
BVPS (Rs)	210.7	226.4	243.6	270.3	308.5
Adj. BVPS (INR)	200.7	216.8	235.4	260.3	295.9
Gross advances	6,19,436	7,18,567	8,62,280	10,43,359	12,83,331
Credit to deposit (%)	76.0	82.7	87.2	86.9	85.4
CASA ratio (%)	35.3	37.4	33.4	32.8	34.0
Cost of deposits (%)	4.7	4.9	6.2	6.0	5.7
Loans-to-Assets (%)	56.5	60.6	64.2	65.2	66.2
Net advances growth (%)	2.4	17.0	20.0	21.4	23.2
Deposit growth (%)	8.0	7.4	13.8	21.8	25.3
Book value growth (%)	(7.9)	7.5	7.6	11.0	14.1

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY22	FY23	FY24E	FY25E	FY26E
P/E (x)	(215.2)	18.4	13.8	9.0	6.5
P/B (x)	1.3	1.2	1.1	1.0	0.9
P/ABV (x)	1.3	1.2	1.1	1.0	0.9
P/PPOP (x)	5.9	7.3	5.5	4.2	3.0
Dividend yield (%)	0.0	0.6	0.7	0.9	1.1
DuPont-RoE split (%)					
NII/avg assets	3.9	4.5	4.9	4.9	4.9
Other income	2.3	2.2	2.4	2.6	2.7
Fee income	2.0	2.1	2.2	2.6	2.7
Opex	3.5	4.8	4.9	4.8	4.5
PPOP	2.7	2.0	2.4	2.7	3.1
Core PPOP	2.4	1.9	2.2	2.5	2.9
Provisions	2.8	0.9	1.3	1.0	1.2
Tax expense	0.0	0.3	0.1	0.4	0.5
RoA (%)	(0.1)	0.8	1.0	1.2	1.4
Leverage ratio (x)	8.2	8.5	8.8	9.3	10.0
RoE (%)	(0.6)	6.7	8.3	11.6	14.2

Quarterly data					
Rs mn, Y/E Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
NII	12,772	13,572	14,222	14,750	15,459
NIM (%)	5.3	5.6	5.5	5.5	5.5
PPOP	5,666	5,933	6,476	7,310	7,653
PAT	2,082	2,704	2,880	2,937	2,328
EPS (Rs)	3.47	4.51	4.80	4.90	3.88

Source: Company, Emkay Research

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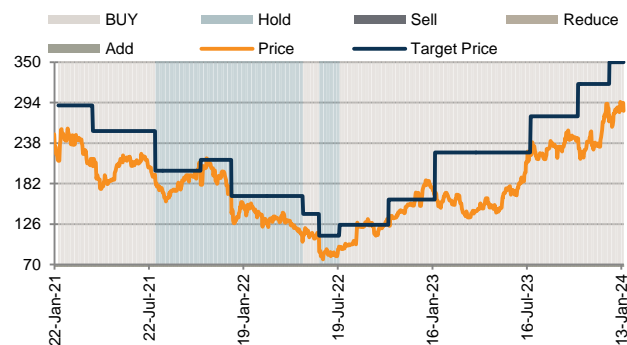
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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
21-Dec-23	276	350	Buy	Anand Dama
30-Nov-23	235	320	Buy	Anand Dama
26-Oct-23	216	320	Buy	Anand Dama
22-Oct-23	244	320	Buy	Anand Dama
23-Jul-23	222	275	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	<15% downside

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