MOTILAL OSWAL FINANCIAL SERVICES

28 April 2024

4QFY24 Results Update | Sector: Financials

# RBL Bank

| Estimate change | ⟷ |
|---|---|
| TP change | ↑ |
| Rating change | ⟷ |

| | |
|---|---|
| Bloomberg | RBK IN |
| Equity Shares (m) | 600 |
| M.Cap.(INRb)/(USDb) | 160.7 / 1.9 |
| 52-Week Range (INR) | 301 / 139 |
| 1, 6, 12 Rel. Per (%) | 9/4/47 |
| 12M Avg Val (INR M) | 2728 |

**Financials & Valuations (INR b)**

| Y/E March | FY24 | FY25E | FY26E |
|---|---|---|---|
| NII | 60.4 | 70.5 | 83.1 |
| OP | 30.3 | 37.8 | 48.2 |
| NP | 11.7 | 15.2 | 20.5 |
| NIM (%) | 5.1 | 5.1 | 5.1 |
| EPS (INR) | 19.3 | 25.2 | 33.9 |
| EPS Gr. (%) | 31.1 | 30.5 | 34.8 |
| BV/Sh. (INR) | 245 | 257 | 279 |
| ABV/Sh. (INR) | 237 | 249 | 270 |
| **Ratios** | | | |
| RoE (%) | 8.2 | 10.0 | 12.7 |
| RoA (%) | 0.9 | 1.0 | 1.2 |
| **Valuations** | | | |
| P/E(X) | 13.8 | 10.6 | 7.8 |
| P/BV (X) | 1.1 | 1.0 | 1.0 |
| P/ABV (X) | 1.1 | 1.1 | 1.0 |

**Shareholding pattern (%)**

| As On | Mar-24 | Dec-23 | Mar-23 |
|---|---|---|---|
| Promoter | 0.0 | 0.0 | 0.0 |
| DII | 20.6 | 19.8 | 22.6 |
| FII | 25.1 | 28.3 | 22.3 |
| Others | 54.3 | 52.0 | 55.1 |

**CMP: INR265 TP: INR280 (+6%) Neutral**

## Low opex and steady other income drive earnings

### Business growth remains healthy

- RBL Bank (RBK) reported a 4QFY24 PAT of INR3.53b (5% beat, 30% YoY growth) due to healthy other income (7% beat) and controlled opex, aided by the reversal of employee provisions.
- NII grew 18% YoY to INR16b (in line), while NIM moderated 7bp QoQ to 5.45%. Other income jumped 30% YoY to INR8.76b during the quarter.
- Advances growth was healthy at 19.6% YoY/5.1% QoQ, led by strong growth in the retail segment. Deposit growth was steady at 21.9% YoY/11.6% QoQ.
- Fresh slippages were at INR6.8b. The GNPA/NNPA ratio improved 47bp/6bp QoQ to 2.65%/0.74% aided by write-offs, while PCR declined 235bp QoQ to 72.7%.
- We broadly retain our earnings estimates and FY26E RoA/RoE at 1.2%/ 12.7%. **Reiterate Neutral with a TP of INR280 (based on 1.0x FY26E ABV).**

### Revenue growth steady; NIM moderates 7bp QoQ

- RBK reported a PAT of INR3.53b (up 30% YoY, 5% beat) led by robust fee and distribution income. NIM moderated 7bp QoQ to 5.45% in 4QFY24.
- Other income grew 30% YoY to INR8.76b (7% beat), led by a 25.9% YoY increase in fee income. Treasury gains stood at INR438m (vs. INR467m in 3QFY24). Opex rose 10.5% YoY (up 1.9% QoQ). C/I ratio, thus moderated 290bps QoQ to 64.2%. PPoP grew ~49.4% YoY to INR8.87b (9% beat).
- Advances grew 19.6% YoY (up 5.1% QoQ) to INR839.9b, driven by ~30.1% YoY growth in retail loans vs. 7.4% YoY growth in wholesale books. Rural vehicle finance grew 11.2% QoQ, while MFI rose 10% QoQ. Personal loan/credit card book grew 9.6%/6.7% QoQ, with the mix of cards standing at 20.3% of loans.
- Deposits grew 21.9% YoY, led by 15% YoY growth in CASA deposits (up 16.3% QoQ). CASA mix, thus, improved 143bp QoQ to 35.2%.
- Fresh slippages stood at INR6.8b. The GNPA/NNPA ratio improved 47bp/6bp QoQ to 2.65%/0.74%, while PCR declined 235bp QoQ to 72.7% in 4QFY24. Restructured book moderated to 0.5% of loans vs. 0.6% in 3QFY24.

### Highlights from the management commentary

- Opex grew 10% YoY and the growth rate is expected to remain within the range of 10-15%, remaining below the growth rate of advances.
- Slippages stood at INR6.8b, with credit cards at INR3.78b, MFI at INR1.62b, wholesale at INR0.7b, and other retail at INR0.69b. Net slippages decreased to INR4.41b from INR4.66b in 3Q.
- Yields for various segments: Credit cards at 20-21%, comprising a mix of transactor and revolver; MFI at 24-25%; HL/LAP at 9%; and wholesale at 9%.
- Deposits below INR20m witnessed rapid growth within the overall deposit base. Efforts will be made to operate within the 120-130% LCR range.

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- The bank anticipates a credit cost range of 2%, with RoA levers focused on margins, operational efficiency, and cost reduction.
- The RoA profile is expected to remain consistent with the addition of these new partnerships, which will also broaden access to opportunities in new geographical areas.

## Valuation and view

RBK reported steady performance with earnings beat led by higher other income. The business is seeing healthy growth and the management anticipates the momentum to sustain driven by retail loans. Deposit growth was healthy with CASA mix improving. CD ratio has moderated to ~81% and bank anticipates its medium term CD ratio to be within the range of 83-87% even as deposits are also expected to grow at a healthy pace. Asset quality has seen an improvement with a decline in restructured book. The management remains confident of steadily improving the RoA trajectory on the back of improving fee intensity and continued moderation in operating costs. We broadly maintain our earnings estimates and estimate FY26 RoA/RoE of 1.2%/12.7%. **Reiterate Neutral with a revised TP of INR280 (vs. INR270 earlier) premised on 1.0x FY26E ABV.**

**Quarterly Performance** **(INR m)**

| | FY23 | | | | FY24E | | | | FY23 | FY24 | FY24E | V/s our |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | | | 4QE | Est |
| **Net Interest Income** | **11,890** | **11,743** | **12,770** | **13,570** | **14,222** | **14,750** | **15,459** | **15,999** | **49,973** | **60,429** | **16,140** | **-1%** |
| % Change (Y-o-Y) | 22.6 | 28.3 | 26.4 | 19.9 | 19.6 | 25.6 | 21.1 | 17.9 | 24.1 | 20.9 | 18.9 | |
| Other Income | 6,136 | 5,833 | 6,184 | 6,741 | 6,854 | 7,044 | 7,776 | 8,755 | 24,894 | 30,429 | 8,199 | 7% |
| **Total Income** | **18,026** | **17,576** | **18,954** | **20,311** | **21,076** | **21,794** | **23,234** | **24,753** | **74,867** | **90,858** | **24,339** | **2%** |
| Operating Expenses | 12,735 | 12,453 | 13,282 | 14,373 | 14,601 | 14,484 | 15,582 | 15,883 | 52,843 | 60,550 | 16,182 | -2% |
| **Operating Profit** | **5,291** | **5,124** | **5,672** | **5,938** | **6,475** | **7,310** | **7,652** | **8,870** | **22,025** | **30,308** | **8,157** | **9%** |
| % Change (Y-o-Y) | -30.9 | -25.9 | -10.1 | -9.7 | 22.4 | 42.7 | 34.9 | 49.4 | -19.8 | 37.6 | 37.4 | |
| Provisions | 2,530 | 2,415 | 2,927 | 2,347 | 2,662 | 6,404 | 4,581 | 4,138 | 10,219 | 17,785 | 3,725 | 11% |
| **Profit before Tax** | **2,761** | **2,709** | **2,745** | **3,591** | **3,813** | **906** | **3,071** | **4,732** | **11,805** | **12,523** | **4,432** | **7%** |
| Tax | 750 | 693 | 655 | 880 | 932 | -2,035 | 740 | 1,206 | 2,978 | 844 | 1,078 | 12% |
| **Net Profit** | **2,012** | **2,016** | **2,090** | **2,711** | **2,881** | **2,941** | **2,331** | **3,526** | **8,827** | **11,679** | **3,354** | **5%** |
| % Change (Y-o-Y) | NM | NM | 33.9 | 37.0 | 43.2 | 45.9 | 11.5 | 30.1 | NM | 32.3 | 23.7 | |
| **Operating Parameters** | | | | | | | | | | | | |
| Deposit (INR b) | 792.2 | 794.0 | 817.5 | 848.9 | 856.4 | 897.8 | 927.5 | 1,034.9 | 848.9 | 1,034.9 | 1,035.0 | |
| Loan (INR b) | 602.7 | 629.4 | 666.8 | 702.1 | 730.9 | 763.2 | 799.5 | 839.9 | 702.1 | 839.9 | 839.5 | |
| Deposit Growth (%) | 6.4 | 5.0 | 11.0 | 7.4 | 8.1 | 13.1 | 13.5 | 21.9 | 7.4 | 21.9 | 21.9 | |
| Loan Growth (%) | 6.6 | 12.4 | 14.7 | 17.0 | 21.3 | 21.3 | 19.9 | 19.6 | 17.0 | 19.6 | 19.6 | |
| **Asset Quality** | | | | | | | | | | | | |
| Gross NPA (%) | 4.1 | 3.8 | 3.6 | 3.4 | 3.2 | 3.1 | 3.1 | 2.7 | 3.4 | 2.7 | 3.0 | |
| Net NPA (%) | 1.2 | 1.3 | 1.2 | 1.1 | 1.0 | 0.8 | 0.8 | 0.7 | 1.1 | 0.7 | 0.8 | |
| PCR (%) | 72.5 | 67.8 | 68.0 | 68.1 | 69.6 | 75.6 | 75.1 | 72.7 | 68.1 | 72.7 | 73.6 | |

E: MOFSL Estimates

## Quarterly snapshot

| INR m | FY23 | | | | FY24 | | | | Change (%) | |
|---|---|---|---|---|---|---|---|---|---|---|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4Q | YoY | QoQ |
| **Profit and Loss** | | | | | | | | | | |
| Interest Income | 20,893 | 22,856 | 23,686 | 24,962 | 28,559 | 30,080 | 31,914 | 33,391 | 34 | 5 |
| Interest Expenses | 10,616 | 11,113 | 12,205 | 12,850 | 14,337 | 15,330 | 16,455 | 17,392 | 35 | 6 |
| **Net Interest Income** | **10,277** | **11,743** | **11,482** | **12,112** | **14,222** | **14,750** | **15,459** | **15,999** | 32 | 3 |
| **Other Income** | **6,136** | **5,833** | **6,184** | **6,741** | **6,854** | **7,044** | **7,776** | **8,755** | 30 | 13 |
| Trading profits | 798 | 408 | 309 | 135 | 480 | 282 | 467 | 438 | 225 | -6 |
| **Total Income** | **16,413** | **17,576** | **17,666** | **18,853** | **21,076** | **21,794** | **23,234** | **24,753** | 31 | 7 |
| **Operating Expenses** | **12,735** | **12,453** | **13,282** | **14,373** | **14,601** | **14,484** | **15,582** | **15,883** | 11 | 2 |
| Employee | 3,090 | 3,410 | 3,329 | 3,574 | 3,412 | 3,747 | 3,989 | 3,775 | 6 | -5 |
| Others | 9,645 | 9,043 | 9,952 | 10,799 | 11,190 | 10,737 | 11,593 | 12,108 | 12 | 4 |
| **Operating Profits** | **3,678** | **5,124** | **4,384** | **4,480** | **6,475** | **7,310** | **7,652** | **8,870** | 98 | 16 |
| **Core Operating Profits** | **4,494** | **4,715** | **5,363** | **5,803** | **5,995** | **7,028** | **7,186** | **8,433** | 45 | 17 |
| Provisions | 2,530 | 2,415 | 2,927 | 2,347 | 2,662 | 6,404 | 4,581 | 4,138 | 76 | -10 |
| **PBT** | **1,148** | **2,709** | **1,457** | **2,133** | **3,813** | **906** | **3,071** | **4,732** | 122 | 54 |
| Taxes | 750 | 693 | 655 | 880 | 932 | -2,035 | 740 | 1,206 | 37 | 63 |
| **PAT** | **399** | **2,016** | **802** | **1,253** | **2,881** | **2,941** | **2,331** | **3,526** | 182 | 51 |
| **Balance Sheet** | | | | | | | | | | |
| Deposits (INR b) | 792 | 794 | 817 | 849 | 856 | 898 | 927 | 1,035 | 22 | 12 |
| Loans (INR b) | 603 | 629 | 667 | 702 | 731 | 763 | 799 | 840 | 20 | 5 |
| **Loan mix (INR b)** | | | | | | | | | | |
| Retail | 305 | 327 | 350 | 378 | 409 | 441 | 464 | 491 | 30 | 6 |
| C&IB | 231 | 231 | 242 | 246 | 247 | 239 | 247 | 257 | 4 | 4 |
| CB | 66 | 71 | 75 | 78 | 75 | 83 | 89 | 91 | 17 | 2 |
| **Loan mix (%)** | | | | | | | | | | |
| Retail | 50.6 | 51.9 | 52.5 | 53.8 | 55.9 | 57.8 | 58.0 | 58.5 | 471 | 52 |
| C&IB | 38.3 | 36.7 | 36.3 | 35.1 | 33.8 | 31.3 | 30.9 | 30.6 | -447 | -22 |
| CB | 11.0 | 11.3 | 11.2 | 11.1 | 10.3 | 10.9 | 11.1 | 10.9 | -24 | -29 |
| **Asset Quality** | | | | | | | | | | |
| GNPA | 25,369 | 24,566 | 24,687 | 24,199 | 24,043 | 24,407 | 25,511 | 22,710 | -6 | -11 |
| NNPA | 6,971 | 7,902 | 7,899 | 7,725 | 7,298 | 5,945 | 6,356 | 6,193 | -20 | -3 |
| Slippages | 6,530 | 8,120 | 6,080 | 6,810 | 5,550 | 5,410 | 6,660 | 6,800 | 0 | 2 |
| **Ratios (%)** | **FY23** | | | | **FY24** | | | | **Change (bp)** | |
| **Asset Quality Ratios** | **1Q** | **2Q** | **3Q** | **4Q** | **1Q** | **2Q** | **3Q** | **4Q** | **YoY** | **QoQ** |
| GNPA | 4.1 | 3.8 | 3.6 | 3.4 | 3.2 | 3.1 | 3.1 | 2.7 | -72 | -47 |
| NNPA | 1.2 | 1.3 | 1.2 | 1.1 | 1.0 | 0.8 | 0.8 | 0.7 | -36 | -6 |
| PCR (Calc) | 72.5 | 67.8 | 68.0 | 68.1 | 69.6 | 75.6 | 75.1 | 72.7 | 465 | -235 |
| Slippage ratio | 4.6 | 5.8 | 4.2 | 4.5 | 3.7 | 3.4 | 4.0 | 3.9 | -66 | -12 |
| **Business Ratios** | | | | | | | | | | |
| Other income/Total Income | 34.0 | 33.2 | 32.6 | 33.2 | 32.5 | 32.3 | 33.5 | 35.4 | 218 | 190 |
| Cost to Income | 70.6 | 70.9 | 70.1 | 70.8 | 69.3 | 66.5 | 67.1 | 64.2 | -660 | -290 |
| Tax Rate | 65.3 | 25.6 | 45.0 | 41.3 | 24.4 | -224.5 | 24.1 | 25.5 | -1,579 | 138 |
| CASA mix | 36.0 | 36.2 | 36.6 | 37.4 | 37.3 | 35.7 | 33.8 | 35.2 | -218 | 143 |
| Loan/Deposit | 76.1 | 79.3 | 81.6 | 82.7 | 85.3 | 85.0 | 86.2 | 81.2 | -156 | -505 |
| Cost / Assets (%) | 1.2 | 1.2 | 1.3 | 1.3 | 1.3 | 1.3 | 1.3 | 1.2 | -5 | -7 |
| **Profitability Ratios** | | | | | | | | | | |
| Yield on loans | 12.4 | 12.2 | 12.8 | 13.5 | 13.9 | 14.0 | 14.0 | 14.1 | 58 | 12 |
| Yield On Investments | 5.4 | 7.0 | 6.5 | 7.0 | 7.3 | 7.2 | 7.3 | 7.0 | 7 | -32 |
| Yield on Funds | 9.5 | 10.5 | 10.5 | 10.6 | 11.7 | 11.9 | 12.4 | 12.3 | 168 | -10 |
| Cost of funds | 4.9 | 5.2 | 5.6 | 5.9 | 6.2 | 6.3 | 6.5 | 6.5 | 66 | 6 |
| **Margins** | **5.4** | **5.4** | **5.6** | **5.8** | **5.8** | **5.8** | **6.0** | **5.9** | 12 | -11 |
| RoA | 0.8 | 0.8 | 0.8 | 1.0 | 1.0 | 1.0 | 1.0 | 1.1 | 8 | 5 |
| RoE | 6.3 | 6.1 | 6.3 | 8.1 | 8.4 | 8.4 | 8.9 | 9.7 | 162 | 84 |
| **Distribution reach** | | | | | | | | | | |
| Branches | 502 | 507 | 516 | 517 | 520 | 528 | 538 | 545 | 28 | 7 |
| ATMS's | 417 | 413 | 413 | 414 | 414 | 408 | 388 | 395 | -19 | 7 |

## Highlights from the management commentary

### Opening remarks by the MD & CEO – Mr. R Subramaniakumar, and the management team

- The focus is on achieving incremental growth in both advances and deposits.
- Advances saw a YoY growth of 20%, while deposits increased 22% YoY.
- The small-ticket housing and business loan segment is maintaining a monthly run-rate of INR1b, providing confidence for further expansion in this area.
- RBL Finserv is dedicated to promoting financial inclusion, particularly in semi-urban and rural areas, with plans to enhance micro and commercial loans. The bank's branches are actively promoting these loan products.
- Organizational changes have been initiated to facilitate cross-selling of housing loans.
- Branches are placing greater emphasis on attracting granular deposits. Despite no rate increases, deposit growth remains comparable to that of larger banks.
- RBL Bank's card disbursements, excluding BFL, account for 40%, with a significant portion sourced through branches. The bank aims to increase internal sourcing and is preparing to launch its own credit cards.
- Efforts are under way to leverage pilots and technology to enhance the customer experience, and utilizing analytics-based tools to reach customers effectively.
- While certain geographies experienced disruptions, the microfinance business is now largely stable.
- Technological upgrades over the past two years have led to consistent business growth.
- In the wholesale business, transaction-led fee income has increased, with a 17% YoY growth in SME wholesale.
- Contingent buffers are being established and will be added to as necessary. Asset quality remains stable, and the PCR is consistently improving.
- PSL targets and sub-segments have already been achieved, potentially eliminating the need for RIDF investments.
- RoA improved to 1.08% from 1.03% in the third quarter.
- A dividend of INR1.5 per share has been declared by the Board, which is pending shareholder approval.

### Yields, costs, and margins

- Net interest income was hit by an increase in CoF, with deposit costs expected to remain relatively stable and NIMs estimated to remain in the same range in the near future.
- An increase in yields and margins in FY25 is expected if the repo rates remain at their current levels.
- Yields will benefit from the retail mix across other retail assets, with improved yields anticipated by the end of the year.
- Yields for various segments are as follows: Credit cards at 20-21%, comprising a mix of transactor and revolver; MFI at 24-25%; HL/LAP at 9%; and wholesale at 9%.
- The C/I ratio stands at 64.2%, compared to 67.1% in 3Q and 70.23% in 4QFY23.

### Expanding into newer business segments

- The bank is currently in an investment phase focused on scaling newer segments, which may initially weigh on its overall profitability. However, this drag is likely to diminish as these segments achieve scale. For instance, while the tractor segment incurred losses in 2022, it is now profitable, and similar products are anticipated to contribute to margins in the future.

- The bank aims to expand its presence in commercial banking loans, with support from the growth in granular deposits.
- The commercial card business is aimed at meeting the payment needs of existing customers and will facilitate a comprehensive product offering for both new and existing customers.
- Acquiring new cards has slowed down in recent quarters as part of a strategy to reduce reliance on a single partner and mitigate risks.

## Deposits and advances

- The current account growth has shown significant strength in the fourth quarter, with total deposits shifting from bulk to more granular sources. Deposit growth remained stable, with the touchpoints of subsidiaries yet to be fully utilized.
- The bank anticipates its C/D ratio to be within the range of 83-87%.
- Deposits below INR20m have experienced rapid growth within the overall deposit base. Efforts will be made to operate within 120-130% of the LCR range.
- Retail advances saw robust growth, increasing by 30% year-on-year, while secured retail loans surged by 43% year-on-year. Wholesale loans grew by 7% YoY.
- Deposits led by branch banking exhibited healthy growth and now constitute 60% of the total deposits.

## Opex

- Employee expenses have decreased due to actuarial provisions made previously, with actual expenses in the fourth quarter being lower than expected, resulting in some reversals.
- Opex growth stands at 10% and is expected to remain within the range of 10-15%, remaining below the growth rate of advances.
- The Cost-to-Income ratio is expected to decrease, leading to benefits starting from the next year onwards.

## Tie-ups in credit cards

- Three new partnerships have been secured, including the launch of Petro RuPay credit cards and collaborations with TVS Credit and a fintech firm. These initiatives are slated for launch by the end 1QFY25.
- The RoA profile is expected to remain consistent with the addition of these new partnerships, which will also broaden access to opportunities in new geographical areas.
- Efforts will be made to decrease reliance on single co-branded partners, with tie-ups established with Indian Oil, Park+, and TVS Credit, scheduled for launch in the first quarter.

## Asset quality

- The bank maintained provisions of INR1.14b for AIF and will review the possibility of reversing the same if the fund is sold down.
- Additionally, the bank held contingent provisions of INR2.82b, with 1% reserved for credit cards.
- Technological changes are not anticipated to result in any additional write-offs.
- The bank anticipates a credit cost range of 2%, with RoA levers focusing on margins, operational efficiency, and cost reduction.
- While wholesale technical write-offs amounted to INR10b, recoveries of INR1-2b are expected.

- Slippages totaled INR6.8b, with credit cards at INR3.78b, MFI at INR1.62b, wholesale at INR0.7b, and other retail at INR0.69b. Net slippages decreased to INR4.41b from INR4.66b in 3Q.
- Provisions totaled INR4.88b, with recoveries of INR0.8b and net provisions standing at INR4.8b. The credit costs for 4QFY24 stood at 53bp, including contingent provisions, while the AIF provisions remained at INR1.14b.
- Despite a slight increase in MFI slippages, the situation is now under control, and incremental operating expenses are expected to improve. Lower disruptions are anticipated to result in reduced slippages.
- Collections were slower in states that held elections in the third quarter, particularly in some southern states. However, the collection efficiency has improved to 99.4%, and the forward flow is expected to decline.
- The credit cost closed at 1.85% and is projected to remain in the 2% range in near future.
- The bank's credit cost is lower than peers, and there has been no increase in stress within the industry.

## Others

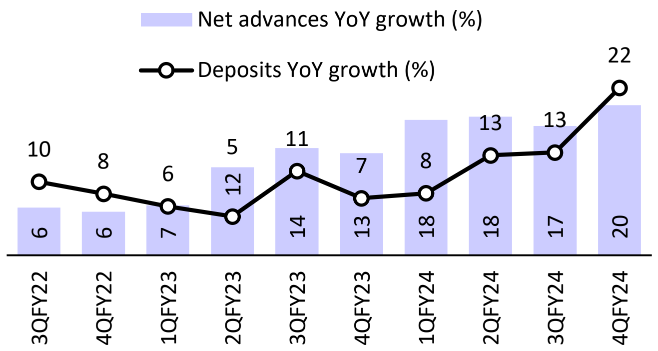
- Improved PPoP growth will be achieved by controlling costs and optimizing operating leverage, leading to better-controlled expenses and consequently, enhanced PPoP growth.
- About 35% of the book (cards, MFI) is largely linked externally; 6-7% is linked to MCLR; and the rest is linked to the repo rate or external benchmarks.
- The goal is to maintain the MFI and credit card portfolio within the range of 35% of the total portfolio. The MFI segment represents a robust PSL compliant portfolio, and efforts will be made to maintain this proportion.
- No one-off tax events are expected in FY25, unlike those observed in FY24.
- There has been no turnover in the top and senior management over the past eight months, ensuring continuity in leadership.
- Fee income, derived from third-party sales such as Mutual Funds and Insurance, is targeted to grow at a faster rate than loan growth.
- The bank remains committed to the technology advancement, with a dedicated team focused on IT. Compliance remains a top priority in the bank's tech initiatives.
- Despite burning 80bp of capital in the last year, the bank does not intend to raise capital in the next year.

## Guidance

- An increase in yields and margins in FY25 is expected if the repo rates remain at their current levels.
- The bank is presently in an investment phase focused on scaling newer segments, which may initially weigh on overall profitability. However, this drag is expected to diminish as these segments achieve scale. For instance, while Tractor segment incurred losses in 2022, it is now profitable, and similar products are anticipated to contribute to margins in the future.
- The bank anticipates its CD ratio to be within the range of 83-87%.
- Opex growth stands at 10% and is expected to remain within the range of 10-15%, remaining below the growth rate of advances.
- The Cost-to-Income ratio is expected to decrease, leading to benefits starting from next year.
- The RoA profile is expected to remain consistent with the addition of these new partnerships, which will also broaden access to opportunities in new geographical areas.
- No one-off tax events are expected in FY25, unlike those observed in FY24.

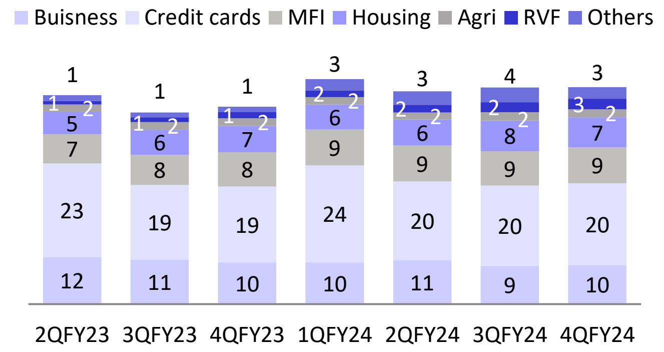
# Story in charts

**Exhibit 1: Loan/Deposits growth healthy at 20%/22% YoY**



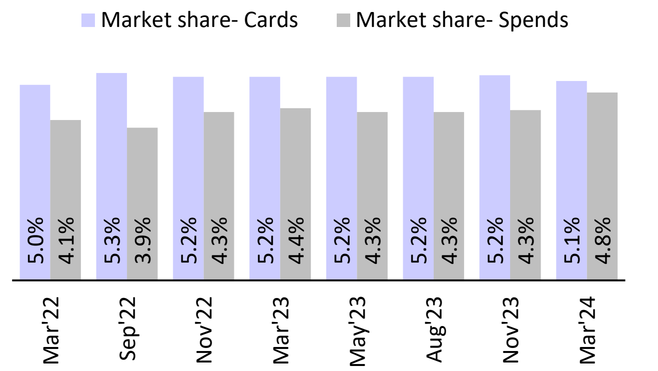

Source: MOFSL, Company

**Exhibit 2: Trend in mix of retail loans**



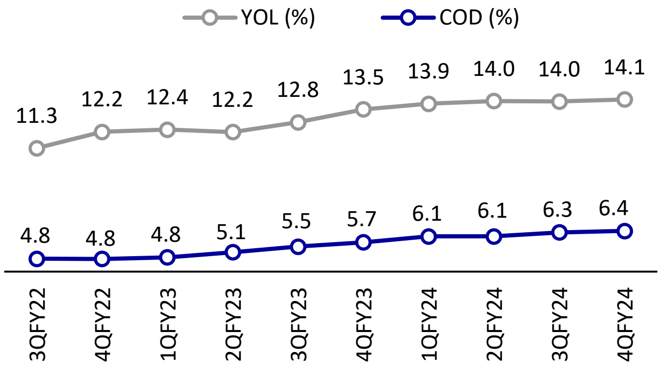

Source: MOFSL, Company

**Exhibit 3: Mkt share in cards/spends rose to 5.1%/4.8%**



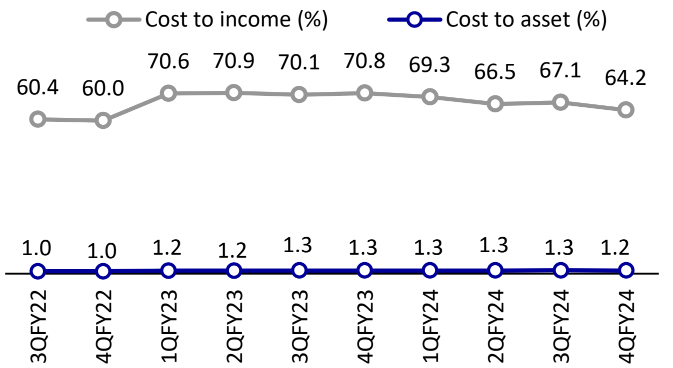

Source: MOFSL, Company

**Exhibit 4: Cost of deposits increased 8bp QoQ to 6.39%**



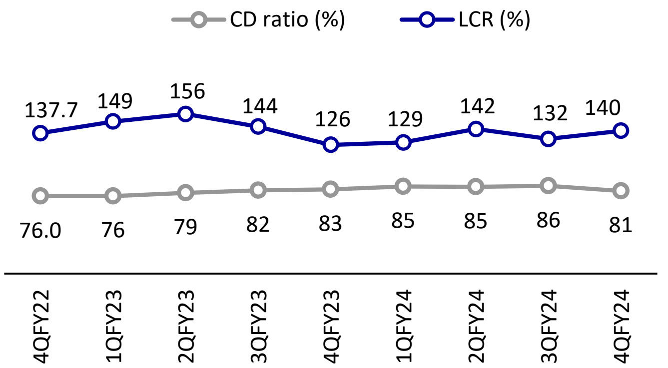

Source: MOFSL, Company

**Exhibit 5: C/I ratio moderated to 64.2% in 4QFY24**



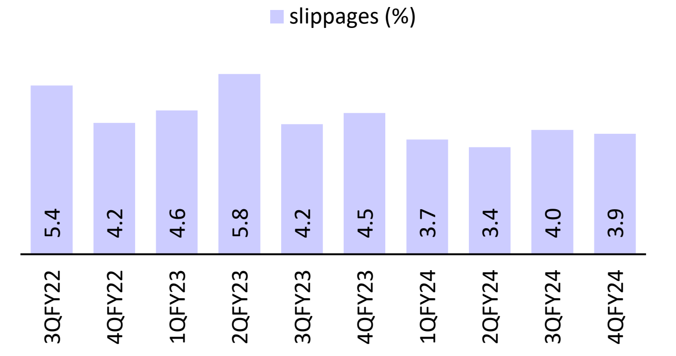

Source: MOFSL, Company

**Exhibit 6: CD ratio eased sharply to ~81% in 4QFY24**



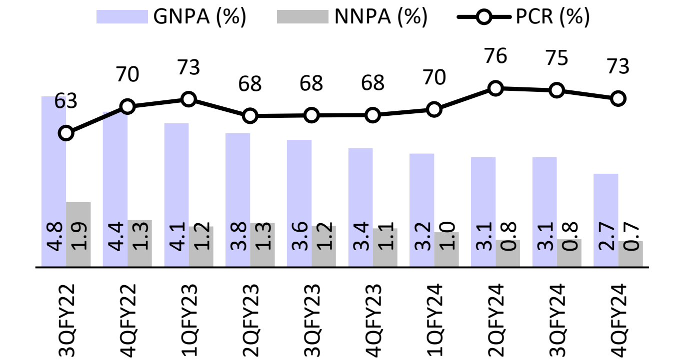

Source: MOFSL, Company

**Exhibit 7: Slippage ratio stood at 3.9% vs. 4.0% in 3QFY24**




Source: MOFSL, Company

**Exhibit 8: GNPA/NNPA improved to 2.65%/0.74%**




Source: MOFSL, Company

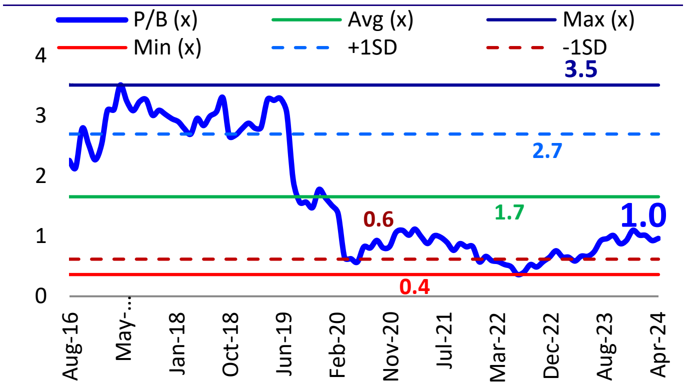
## Valuation and view

- Advances grew 19.6% YoY (up 5.1% QoQ) to INR839.9b, driven by ~30.1% YoY growth in retail loans vs. 7.4% YoY growth in wholesale books. Deposits grew 21.9% YoY, led by 15% YoY growth in CASA deposits (up 16.3% QoQ). The CASA mix, thus, improved 143bp QoQ to 35.2%. We estimate a loan CAGR of 19% over FY24-26.
- Fresh slippages increased to INR6.8b. GNPA/NNPA ratio improved 47bp/6bp QoQ to 2.65%/0.74% while PCR declined 235bp QoQ to 72.7%. The restructuring book moderated to 0.5% of loans from. 0.6% in 3QFY24. We expect slippages to moderate to 3.5-3.4% and estimate a credit cost of 1.85% over FY25-26.
- **Maintain Neutral with a TP of INR280:** RBK reported steady performance with earnings beat led by higher other income. The business is seeing healthy growth and the management anticipates the momentum to sustain driven by retail loans. Deposit growth was healthy with CASA mix improving. CD ratio has moderated to ~81% and bank anticipates its medium term CD ratio to be within the range of 83-87% even as deposits are also expected to grow at a healthy pace. Asset quality has seen an improvement with a decline in restructured book. The management remains confident of steadily improving the RoA trajectory on the back of improving fee intensity and continued moderation in operating costs. We broadly maintain our earnings estimates and estimate FY26 RoA/RoE of 1.2%/12.7%. **Reiterate Neutral with a revised TP of INR280 (vs. INR270 earlier) premised on 1.0x FY26E ABV.**

**Exhibit 9: Changes to our estimates**

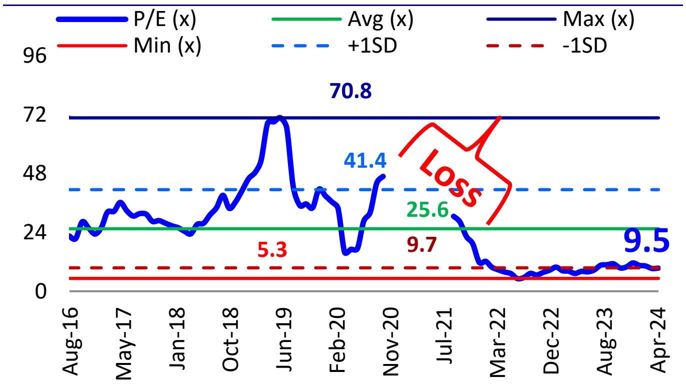
| INR b | Old estimates | | Revised estimates | | Change (%/bps) | |
|---|---|---|---|---|---|---|
| | FY25 | FY26 | FY25 | FY26 | FY25 | FY26 |
| Net Interest Income | 71.3 | 84.7 | 70.5 | 83.1 | -1.1 | -2.0 |
| Other Income | 35.8 | 43.0 | 37.1 | 45.3 | 3.6 | 5.3 |
| **Total Income** | **107.1** | **127.8** | **107.6** | **128.3** | **0.5** | **0.5** |
| Operating Expenses | 70.7 | 82.1 | 69.8 | 80.1 | -1.3 | -2.4 |
| **Operating Profits** | **36.4** | **45.7** | **37.8** | **48.2** | **3.9** | **5.5** |
| Provisions | 16.0 | 18.0 | 17.5 | 21.0 | 9.4 | 16.5 |
| **PBT** | **20.3** | **27.7** | **20.2** | **27.3** | **-0.5** | **-1.6** |
| Tax | 5.0 | 6.8 | 5.0 | 6.7 | 0.3 | -0.8 |
| **PAT** | **15.4** | **20.9** | **15.2** | **20.5** | **-0.7** | **-1.9** |
| Loans | 994 | 1,183 | 1,003 | 1,199 | 0.9 | 1.4 |
| Deposits | 1,162 | 1,380 | 1,208 | 1,417 | 4.0 | 2.6 |
| Margins (%) | 5.23 | 5.28 | 5.08 | 5.12 | -15 | -16 |
| Credit Cost (%) | 1.70 | 1.60 | 1.85 | 1.85 | 15 | 25 |
| **RoA (%)** | **1.05** | **1.22** | **1.01** | **1.16** | **-4** | **-6** |
| **RoE (%)** | **10.2** | **12.9** | **10.0** | **12.7** | **-19** | **-24** |
| EPS | 25.6 | 34.9 | 25.2 | 33.9 | -1.7 | -2.8 |
| BV | 259.2 | 281.9 | 257.1 | 279.1 | -0.8 | -1.0 |
| ABV | 250.2 | 271.4 | 248.8 | 269.7 | -0.5 | -0.6 |

**Exhibit 10: One-year forward P/B ratio**




Source: MOFSL, Company

**Exhibit 11: One-year forward P/E ratio**




Source: MOFSL, Company

**Exhibit 12: DuPont analysis – Estimate return ratios to improve gradually**

| Y/E MARCH | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| Interest Income | 8.86 | 10.06 | 8.78 | 7.90 | 8.71 | 9.75 | 9.97 | 9.95 |
| Interest Expense | 5.29 | 5.77 | 4.79 | 4.01 | 4.21 | 5.00 | 5.30 | 5.25 |
| **Net Interest Income** | **3.57** | **4.29** | **3.99** | **3.89** | **4.50** | **4.75** | **4.67** | **4.70** |
| Fee income | 1.92 | 2.07 | 1.70 | 2.02 | 2.13 | 2.28 | 2.34 | 2.44 |
| Trading and others | 0.11 | 0.19 | 0.29 | 0.24 | 0.11 | 0.12 | 0.12 | 0.12 |
| **Non-Interest income** | **2.03** | **2.26** | **1.99** | **2.26** | **2.24** | **2.39** | **2.46** | **2.56** |
| **Total Income** | **5.60** | **6.54** | **5.98** | **6.16** | **6.74** | **7.15** | **7.13** | **7.26** |
| **Operating Expenses** | **2.87** | **3.34** | **2.91** | **3.50** | **4.76** | **4.76** | **4.63** | **4.53** |
| Employee cost | 0.89 | 0.91 | 0.89 | 0.97 | 1.21 | 1.22 | 1.17 | 1.14 |
| Others | 1.98 | 2.43 | 2.01 | 2.53 | 3.55 | 3.54 | 3.46 | 3.40 |
| **Operating Profit** | **2.73** | **3.21** | **3.08** | **2.65** | **1.98** | **2.38** | **2.50** | **2.73** |
| **Core Operating Profit** | **2.62** | **3.02** | **2.79** | **2.41** | **1.87** | **2.27** | **2.39** | **2.61** |
| **Provisions** | **0.90** | **2.32** | **2.35** | **2.77** | **0.92** | **1.40** | **1.16** | **1.19** |
| NPA | 0.66 | 2.20 | 2.31 | 2.42 | 1.01 | 1.09 | 1.13 | 1.15 |
| Others | 0.24 | 0.12 | 0.04 | 0.35 | -0.09 | 0.31 | 0.03 | 0.03 |
| **PBT** | **1.83** | **0.89** | **0.73** | **-0.11** | **1.06** | **0.98** | **1.34** | **1.54** |
| Tax | 0.61 | 0.29 | 0.19 | -0.04 | 0.27 | 0.07 | 0.33 | 0.38 |
| **RoA** | **1.22** | **0.60** | **0.54** | **-0.07** | **0.79** | **0.92** | **1.01** | **1.16** |
| *Leverage (x)* | *10.0* | *9.3* | *8.2* | *8.2* | *8.5* | *9.0* | *9.9* | *10.9* |
| **RoE** | **12.2** | **5.6** | **4.4** | **-0.6** | **6.7** | **8.2** | **10.0** | **12.7** |

# Financials and valuations

| Income Statement | | | | | | | | (INR m) |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY19** | **FY20** | **FY21** | **FY22** | **FY23** | **FY24** | **FY25E** | **FY26E** |
| Interest Income | 63,007 | 85,144 | 83,290 | 81,758 | 96,769 | 1,23,943 | 1,50,427 | 1,75,771 |
| Interest Expense | 37,612 | 48,847 | 45,415 | 41,491 | 46,784 | 63,514 | 79,961 | 92,717 |
| **Net Interest Income** | **25,395** | **36,296** | **37,876** | **40,267** | **49,985** | **60,429** | **70,467** | **83,054** |
| Growth (%) | 43.8 | 42.9 | 4.4 | 6.3 | 24.1 | 20.9 | 16.6 | 17.9 |
| Non-Interest Income | 14,424 | 19,102 | 18,840 | 23,405 | 24,894 | 30,429 | 37,123 | 45,290 |
| **Total Income** | **39,818** | **55,399** | **56,716** | **63,673** | **74,879** | **90,858** | **1,07,590** | **1,28,344** |
| Growth (%) | 40.5 | 39.1 | 2.4 | 12.3 | 17.6 | 21.3 | 18.4 | 19.3 |
| Operating Expenses | 20,420 | 28,256 | 27,546 | 36,220 | 52,854 | 60,550 | 69,822 | 80,119 |
| **Pre Provision Profits** | **19,398** | **27,143** | **29,170** | **27,453** | **22,025** | **30,308** | **37,768** | **48,225** |
| Growth (%) | 45.7 | 39.9 | 7.5 | -5.9 | -19.8 | 37.6 | 24.6 | 27.7 |
| **Core PPoP** | **18,615** | **25,548** | **26,449** | **24,961** | **20,803** | **28,841** | **36,008** | **46,113** |
| Growth (%) | 59.8 | 37.2 | 3.5 | -5.6 | -16.7 | 38.6 | 24.8 | 28.1 |
| Provisions | 6,407 | 19,615 | 22,279 | 28,604 | 10,219 | 17,785 | 17,534 | 20,960 |
| **PBT** | **12,992** | **7,528** | **6,891** | **-1,151** | **11,805** | **12,523** | **20,234** | **27,265** |
| Tax | 4,322 | 2,471 | 1,813 | -404 | 2,978 | 844 | 4,998 | 6,735 |
| Tax Rate (%) | 33.3 | 32.8 | 26.3 | 35.1 | 25.2 | 6.7 | 24.7 | 24.7 |
| **PAT** | **8,670** | **5,057** | **5,078** | **-747** | **8,827** | **11,679** | **15,236** | **20,531** |
| Growth (%) | 36.5 | -41.7 | 0.4 | -114.7 | -1,281.2 | 32.3 | 30.5 | 34.8 |

| Balance Sheet | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Y/E March** | **FY19** | **FY20** | **FY21** | **FY22** | **FY23** | **FY24** | **FY25E** | **FY26E** |
| Equity Share Capital | 4,267 | 5,087 | 5,980 | 5,995 | 5,996 | 6,051 | 6,051 | 6,051 |
| Reserves & Surplus | 71,206 | 1,00,742 | 1,20,646 | 1,20,187 | 1,29,770 | 1,41,913 | 1,49,496 | 1,62,821 |
| **Net Worth** | **75,473** | **1,05,829** | **1,26,626** | **1,26,182** | **1,35,766** | **1,47,964** | **1,55,547** | **1,68,872** |
| **Deposits** | **5,83,944** | **5,78,122** | **7,31,213** | **7,90,065** | **8,48,865** | **10,34,936** | **12,07,770** | **14,16,715** |
| Growth (%) | 33.0 | -1.0 | 26.5 | 8.0 | 7.4 | 21.9 | 16.7 | 17.3 |
| **- CASA Dep** | **1,45,875** | **1,71,156** | **2,32,642** | **2,78,790** | **3,17,165** | **3,44,634** | **3,93,733** | **4,60,432** |
| Growth (%) | 36.6 | 17.3 | 35.9 | 19.8 | 13.8 | 8.7 | 14.2 | 16.9 |
| Borrowings | 1,18,321 | 1,70,067 | 1,12,259 | 1,10,930 | 1,33,313 | 1,41,841 | 2,00,069 | 2,37,087 |
| Other Liabilities & Prov. | 25,850 | 35,759 | 36,409 | 34,908 | 40,818 | 59,581 | 68,518 | 78,796 |
| **Total Liabilities** | **8,03,588** | **8,89,778** | **10,06,506** | **10,62,086** | **11,58,762** | **13,84,322** | **16,31,905** | **19,01,470** |
| Cash & Balances with RBI | **48,395** | **64,151** | **67,047** | **1,31,111** | **62,381** | **1,20,708** | **95,733** | **87,651** |
| Balances with Banks & money at Call & Short Notice | **17,626** | **24,421** | **67,195** | **44,366** | **22,820** | 23,457 | 50,682 | 46,306 |
| **Investments** | **1,68,404** | **1,81,497** | **2,32,300** | **2,22,739** | **2,88,754** | **2,95,759** | **3,51,953** | **4,18,824** |
| Growth (%) | 9.0 | 7.8 | 28.0 | -4.1 | 29.6 | 2.4 | 19.0 | 19.0 |
| **Loans** | **5,43,082** | **5,80,190** | **5,86,225** | **6,00,218** | **7,02,094** | **8,39,869** | **10,02,804** | **11,99,353** |
| Growth (%) | 34.9 | 6.8 | 1.0 | 2.4 | 17.0 | 19.6 | 19.4 | 19.6 |
| Fixed Assets | 4,025 | 4,698 | 4,665 | 5,481 | 5,740 | 5,324 | 7,868 | 9,363 |
| Other Assets | 22,056 | 34,820 | 49,070 | 58,166 | 76,974 | 99,205 | 1,22,866 | 1,39,972 |
| **Total Assets** | **8,03,588** | **8,89,778** | **10,06,502** | **10,62,082** | **11,58,762** | **13,84,322** | **16,31,905** | **19,01,470** |

| Asset Quality | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| GNPA (INR m) | 7,546 | 21,365 | 26,015 | 27,284 | 24,196 | 22,706 | 26,671 | 31,428 |
| NNPA (INR m) | 3,728 | 11,894 | 12,414 | 8,066 | 7,723 | 6,204 | 7,095 | 8,062 |
| Slippages (INR m) | 7,070 | 33,591 | 31,478 | 39,434 | 27,540 | 24,420 | 29,395 | 34,095 |
| GNPA Ratio | 1.38 | 3.62 | 4.34 | 4.40 | 3.37 | 2.65 | 2.61 | 2.57 |
| NNPA Ratio | 0.69 | 2.05 | 2.12 | 1.34 | 1.10 | 0.74 | 0.71 | 0.67 |
| Slippage Ratio | 1.76 | 6.19 | 5.43 | 6.73 | 4.59 | 3.45 | 3.50 | 3.40 |
| Credit Cost | 1.35 | 3.49 | 3.82 | 4.82 | 1.57 | 1.80 | 1.85 | 1.85 |
| PCR (Excl Tech. write off) | 50.6 | 44.3 | 52.3 | 70.4 | 68.1 | 72.7 | 73.4 | 74.3 |

E: MOFSL Estimates

# Financials and valuations

**Ratios**

| Y/E March | FY19 | FY20 | FY21 | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|---|---|---|
| **Yield and Cost Ratios (%)** | | | | | | | | |
| **Avg. Yield-Earning Assets** | **9.2** | **10.5** | **9.3** | **8.4** | **9.4** | **10.6** | **10.9** | **10.8** |
| Avg. Yield on loans | 10.7 | 12.3 | 11.2 | 10.6 | 11.8 | 12.9 | 13.2 | 13.0 |
| Avg. Yield on Investments | 6.9 | 7.9 | 6.7 | 6.0 | 6.4 | 6.8 | 6.9 | 6.9 |
| **Avg. Cost-Int. Bear. Liab.** | **6.1** | **6.7** | **5.7** | **4.8** | **5.0** | **5.9** | **6.2** | **6.1** |
| Avg. Cost of Deposits | 6.3 | 6.9 | 5.5 | 4.7 | 4.9 | 6.2 | 6.2 | 6.0 |
| **Interest Spread** | **3.1** | **3.8** | **3.6** | **3.6** | **4.4** | **4.7** | **4.7** | **4.8** |
| **Net Interest Margin** | **3.7** | **4.5** | **4.2** | **4.1** | **4.8** | **5.1** | **5.1** | **5.1** |
| **Capitalization Ratios (%)** | | | | | | | | |
| CAR | 13.5 | 16.5 | 17.5 | 16.8 | 16.9 | 16.2 | 14.8 | 13.8 |
| CET-1 | 12.1 | 15.3 | 16.6 | 16.2 | 15.3 | 14.4 | 13.1 | 12.3 |
| Tier I | 12.1 | 15.3 | 16.6 | 16.2 | 15.3 | 14.4 | 13.1 | 12.3 |
| Tier II | 1.4 | 1.1 | 0.9 | 0.6 | 1.6 | 1.8 | 1.6 | 1.5 |
| **Business & Efficiency Ratios (%)** | | | | | | | | |
| Loans/Deposit Ratio | 93.0 | 100.4 | 80.2 | 76.0 | 82.7 | 81.2 | 83.0 | 84.7 |
| CASA Ratio | 25.0 | 29.6 | 31.8 | 35.3 | 37.4 | 33.3 | 32.6 | 32.5 |
| Cost/Assets | 2.5 | 3.2 | 2.7 | 3.4 | 4.6 | 4.4 | 4.3 | 4.2 |
| Cost/Total Income | 51.3 | 51.0 | 48.6 | 56.9 | 70.6 | 66.6 | 64.9 | 62.4 |
| Cost/Core Income | 52.3 | 52.5 | 51.0 | 59.2 | 71.8 | 67.7 | 66.0 | 63.5 |
| Int. Expense/Int. Income | 59.7 | 57.4 | 54.5 | 50.7 | 48.3 | 51.2 | 53.2 | 52.7 |
| Fee Income/Net Income | 30.2 | 28.7 | 25.6 | 29.5 | 28.0 | 28.1 | 29.1 | 29.9 |
| Non Int. Inc./Net Income | 36.2 | 34.5 | 33.2 | 36.8 | 33.2 | 33.5 | 34.5 | 35.3 |
| Empl. Cost/Total Expense | 31.2 | 27.2 | 30.7 | 27.7 | 25.4 | 25.6 | 25.3 | 25.1 |
| CASA per branch (INR b) | 450.2 | 443.4 | 542.3 | 555.4 | 613.5 | 641.0 | 697.4 | 784.2 |
| Deposits per branch (INR b) | 1,802.3 | 1,497.7 | 1,704.5 | 1,573.8 | 1,641.9 | 1,924.8 | 2,139.3 | 2,412.9 |
| Business per Employee (INR m) | 192.9 | 160.4 | 168.6 | 150.2 | 140.6 | 142.8 | 142.7 | 144.3 |
| Profit per Employee (INR m) | 1.5 | 0.7 | 0.6 | -0.1 | 0.8 | 0.9 | 1.0 | 1.1 |
| Investment/Deposit Ratio | 28.8 | 31.4 | 31.8 | 28.2 | 34.0 | 28.6 | 29.1 | 29.6 |

**Profitability & Valuation Ratios**

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| RoE | 12.2 | 5.6 | 4.4 | -0.6 | 6.7 | 8.2 | 10.0 | 12.7 |
| RoA | 1.2 | 0.6 | 0.5 | -0.1 | 0.8 | 0.9 | 1.0 | 1.2 |
| RoRWA | 1.6 | 0.8 | 0.7 | -0.1 | 1.1 | 1.3 | 1.4 | 1.5 |
| Book Value (INR) | 177 | 208 | 212 | 210 | 226 | 245 | 257 | 279 |
| Growth (%) | 11.1 | 17.6 | 1.8 | -0.6 | 7.6 | 8.0 | 5.1 | 8.6 |
| **Price-BV (x)** | **1.5** | **1.3** | **1.3** | **1.3** | **1.2** | **1.1** | **1.0** | **1.0** |
| Adjusted BV (INR) | 169 | 190 | 195 | 199 | 215 | 237 | 249 | 270 |
| **Price-ABV (x)** | **1.6** | **1.4** | **1.4** | **1.3** | **1.2** | **1.1** | **1.1** | **1.0** |
| EPS (INR) | 20.3 | 9.9 | 8.5 | -1.2 | 14.7 | 19.3 | 25.2 | 33.9 |
| Growth (%) | 34.3 | -51.1 | -14.6 | -114.7 | -1,281.0 | 31.1 | 30.5 | 34.8 |
| **Price-Earnings (x)** | **13.1** | **26.8** | **31.3** | **-213.4** | **18.1** | **13.8** | **10.6** | **7.8** |
| Dividend Per Share (INR) | 2.1 | 3.8 | 0.0 | 0.0 | 1.5 | 3.9 | 6.3 | 10.2 |
| **Dividend Yield (%)** | **0.8** | **1.4** | **0.0** | **0.0** | **0.6** | **1.5** | **2.4** | **3.8** |

E: MOFSL Estimates

NOTES

| Explanation of Investment Rating | |
|---|---|
| **Investment Rating** | **Expected return (over 12-month)** |
| BUY | >=15% |
| SELL | < - 10% |
| NEUTRAL | < - 10 % to 15% |
| UNDER REVIEW | Rating may undergo a change |
| NOT RATED | We have forward looking estimates for the stock but we refrain from assigning recommendation |

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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