

Strong RoA delivery, but needs to shore up capital buffers

BFSI - Banks ▶ Result Update ▶ July 21, 2024

TARGET PRICE (Rs): 350

RBL has posted strong 29% PAT growth YoY at Rs3.7bn/1.2% RoA, mainly led by in-line healthy NII growth/lower provisions, as it reversed AIF provision to the tune of Rs0.9bn. Credit growth was slightly moderate at 19% YoY, due to the bank's strategy to prune the low-yielding corporate book and, instead, focus on retail, which should be margin-accretive. This reflected in core margins being largely flat at 5.45%, incl. interest on the IT refund improving by 22bps QoQ to 5.67%. The mgmt guides for nearly-flat margin in 2Q which should improve thereon, due to better portfolio mix. Seasonal + election-related stress is reflected in the higher transient MFI space, but the bank remains resolved to build contingent provision buffer. With industry-wide noise on stress in unsecured loans incl MFI on the rise, we build in some growth moderation and higher LLP, leading to a 2-8% cut in FY25-27E earnings. But we still expect the bank to deliver gradual improvement in RoA to 1.1-1.3%. We retain BUY with TP of Rs350/sh (1.2x Jun-26E ABV), taking comfort on valuations. Given that CET 1 is now at 13.9%, we expect the bank to raise capital sooner than later.

RBL Bank: Financial Snapshot (Standalone)

Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Net profit	8,756	11,679	15,935	21,496	28,379
Loan growth (%)	17.0	19.6	19.1	19.9	21.9
NII growth (%)	24.1	20.9	18.4	19.1	20.6
NIM (%)	4.9	5.2	5.2	5.2	5.2
PPOP growth (%)	(20.0)	38.1	30.3	32.5	33.1
Adj. EPS (Rs)	14.6	19.4	26.3	35.5	46.8
Adj. EPS growth (%)	0.0	32.8	35.7	34.8	32.0
Adj. BV (INR)	216.8	237.9	261.1	290.7	330.4
Adj. BVPS growth (%)	(5.4)	8.0	9.8	9.7	11.3
RoA (%)	0.8	0.9	1.1	1.2	1.3
RoE (%)	6.7	8.2	10.2	12.4	14.5
P/E (x)	16.5	12.4	9.1	6.8	5.1
P/ABV (x)	1.1	1.0	0.9	0.8	0.7

Source: Company, Emkay Research

Focus remains on secured retail build-up, better risk adjusted margins

RBL Bank reported slight moderation in credit growth to 19% YoY/3% QoQ, mainly due to contraction in the corporate book and some slow-down in unsecured loans. The bank has seen some slowdown in new card addition, possibly due to rising stress in unsecured loans, and has certainly implemented a prudent strategy. MFI growth too has slowed down a bit, due to seasonal factors and rising stress in the sector. However, the bank is ramping up its SME and secured retail book, including mortgages, with clear focus on delivering healthy risk-adjusted margins. The management guides to nearly-flat margin in 2Q which should improve thereon, due to a better portfolio mix.

Stress in unsecured loans remains elevated

Gross slippages remained elevated at Rs7.2bn/3.3% of loans, given elevated stress from the card book and seasonal + election-induced transient stress in the MFI segment. This led to a break in the declining GNPA-ratio trend – up 5bps QoQ to 2.7%. The bank remains determined to gradually build contingent provision buffer, apart from healthy specific PCR at >70%. Bank's CET 1 has slipped by 50bps QoQ to 13.9%, partly due to higher operational RWA impact, while potential introduction of ECL guidelines would call for capital raise sooner than later.

We retain BUY on RBL, and TP of Rs350/share

We cut our earnings estimates by 2-8%, factoring-in some growth moderation and the elevated LLP. However, we still expect the bank to report a steady improvement in RoA to 1.1-1.3% over FY25-27E, from 0.9% in FY24. We retain our long-term BUY on RBL, with TP of Rs350/share, taking comfort on valuations implying 1.2x FY26E ABV. Key risks: Potential indirect impact from the farm-loan waiver on the MFI portfolio in the State of Maharashtra, inherent asset quality risk in the card portfolio, and thus higher than expected LLP.

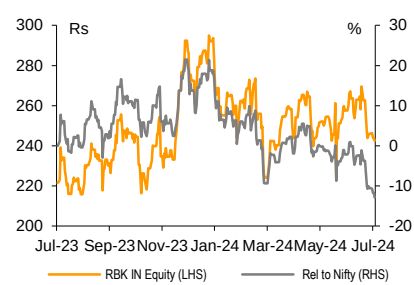
Target Price – 12M	Mar-25
Change in TP (%)	-
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	45.6
CMP (19-Jul-24) (Rs)	240.4

Stock Data	Ticker
52-week High (Rs)	301
52-week Low (Rs)	209
Shares outstanding (mn)	606.4
Market-cap (Rs bn)	146
Market-cap (US\$ mn)	1,742
Net-debt, FY25E (Rs mn)	NA
ADTV-3M (mn shares)	7
ADTV-3M (Rs mn)	1,794.1
ADTV-3M (US\$ mn)	21.4
Free float (%)	99.0
Nifty-50	24,531
INR/US\$	83.7
Shareholding, Jun-24	
Promoters (%)	-
FPIs/MFs (%)	28.5/20.7

Price Performance

(%)	1M	3M	12M
Absolute	(9.7)	(5.4)	12.8
Rel. to Nifty	(13.4)	(14.6)	(8.8)

1-Year share price trend (Rs)



Anand Dama

anand.dama@emkayglobal.com
+91 22 6624 2480

Kunaal N

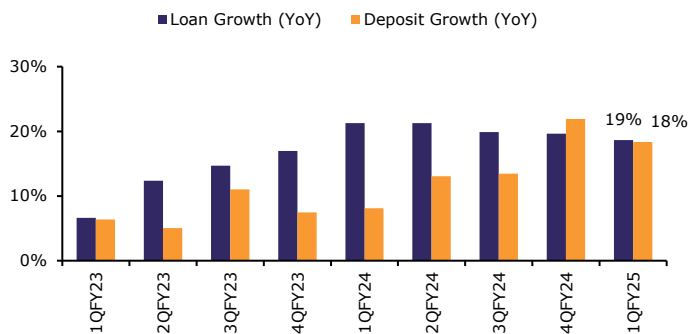
kunaal.n@emkayglobal.com
+91 22 6612 1275

Marazbaan Dastur

marazbaan.dastur@emkayglobal.com
+91 22 6612 1281

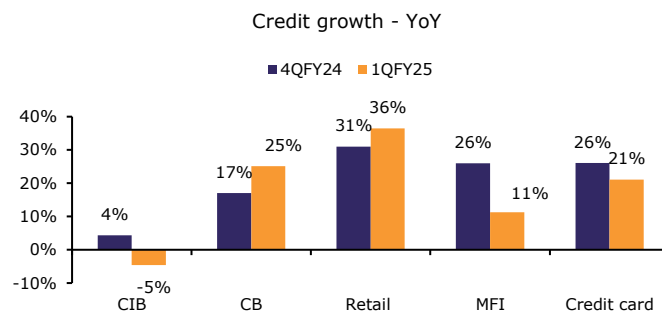
Story in Charts

Exhibit 1: Credit growth sees slight moderation...



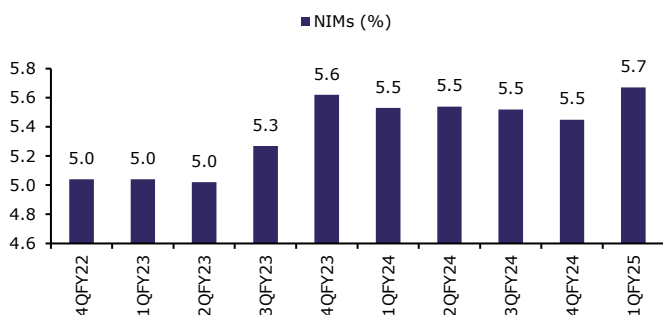
Source: Company, Emkay Research

Exhibit 2: ...primarily due to contraction in CB ; however, retail growth remains healthy



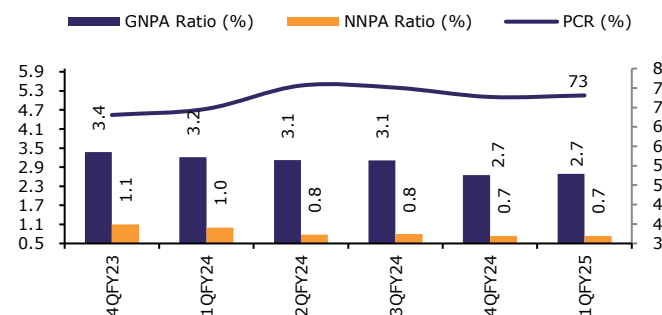
Source: Company, Emkay Research

Exhibit 3: NIMs including, interest on IT refund, improved by 22bps QoQ



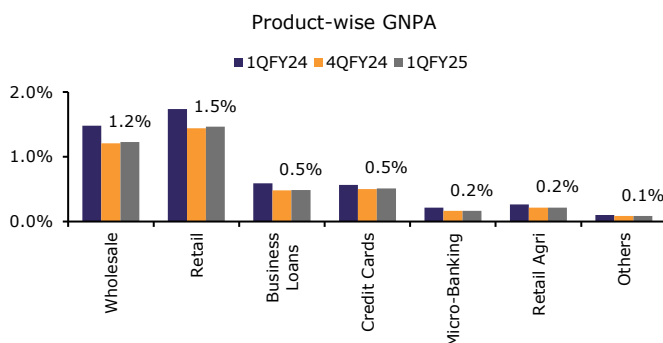
Source: Company, Emkay Research

Exhibit 4: NPAs remain elevated, given the elevated stress from the card book and seasonal +election induced stress in the MFI segment



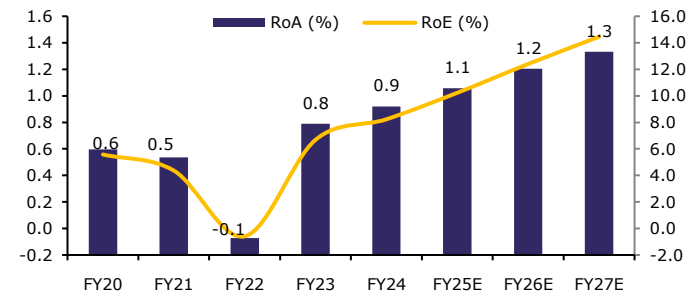
Source: Company, Emkay Research

Exhibit 5: Cards, MFI portfolio exhibit higher stress levels



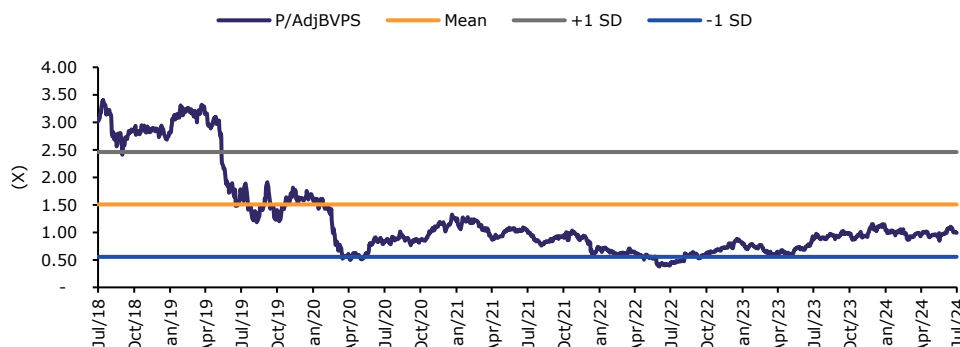
Source: Company, Emkay Research

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



Source: Company, Emkay Research

Exhibit 7: The stock currently trades at reasonable valuations



Source: Bloomberg, Emkay Research

Exhibit 8: Actuals vs Estimates(Q1FY25)

(Rs mn)	Actuals	Estimates		Variation		Comments
		Emkay	Consensus	Emkay	Consensus	
Net income	25,054	25,957	23,824	-3%	5%	Lower other income led to a miss
PPOP	8,591	9,615	8,909	-11%	-4%	Higher opex led to a miss
PAT	3,715	3,611	3,451	3%	8%	Reversal of AIF related provisions led to a beat on PAT

Source: Company, Emkay Research

Exhibit 9: Quarterly summary (Q1FY25)

(Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)	FY24A	FY25E	YoY (%)
Interest Earned	28,559	30,080	31,914	33,391	34,962	16	5	123,943	148,025	19
Interest Exp	14,337	15,330	16,455	17,392	17,963	17	3	63,514	76,478	20
Net Interest Income	14,222	14,750	15,459	15,999	17,000	15	6	60,429	71,547	18
Global NIMs (reported)	5.53	5.54	5.52	5.45	5.67	14bps	22bps	5.16	5.15	-1bps
Non-interest Income	6,854	7,044	7,776	8,755	8,055	14	-8	30,429	36,641	20
Operating Expenses	14,600	14,484	15,582	15,883	16,464	14	4	60,550	68,697	13
Pre Provisioning Profit	6,476	7,310	7,653	8,870	8,591	18	-3	30,307	39,490	30
Provision & Contingencies	2,662	6,404	4,581	4,138	3,663	-43	-11	17,785	18,187	2
PBT	3,814	906	3,071	4,732	4,928	444	4	12,523	21,303	70
Income Tax Expense (Gain)	932	-2,035	740	1,206	1,213	-160	1	844	5,368	536
Net Profit/(Loss)	2,882	2,941	2,331	3,526	3,715	26	5	11,679	15,935	36
Gross NPA (%)	3.22	3.12	3.12	2.65	2.69	-53bps	4bps	2.65	2.51	-14bps
Net NPA (%)	1.00	0.78	0.80	0.74	0.74	-26bps	0bps	0.74	0.72	-2bps
Deposits (Rs bn)	856	898	927	1,035	1,014	13	-2	1,035	1,260	22
Net Advances (Rs bn)	731	763	799	840	867	14	3	840	1,001	19

Source: Company, Emkay Research

Exhibit 10: Revision in estimates

Y/E Mar (Rs mn)	FY25E			FY26E			FY27E		
	Earlier	Revised	Change	Earlier	Revised	Change	Earlier	Revised	Change
Net income	110,548	108,188	-2.1%	132,107	108,188	-18.1%	160,295	157,658	-1.6%
PPOP	40,828	39,490	-3.3%	54,235	39,490	-27.2%	72,104	69,656	-3.4%
PAT	17,926	15,935	-11.1%	22,780	15,935	-30.1%	30,886	28,379	-8.1%
EPS (Rs)	29.9	26.3	-12.0%	37.6	26.3	-30.1%	51.0	46.8	-8.3%
BV (Rs)	273.5	270.0	-1.3%	303.4	270.0	-11.0%	351.5	345.6	-1.7%

Source: Emkay Research

Exhibit 11: Key Assumptions

(%)	FY24A	FY25E	FY26E	FY27E
Loan Growth	19.6	19.1	19.9	21.9
Deposit Growth	21.9	21.8	21.4	22.3
NIM	5.2	5.2	5.2	5.2
GNPA	2.7	2.5	2.7	2.8
Credit Cost	1.8	1.9	2.1	2.3

Source: Emkay Research

Exhibit 12: Key Ratios and Trends

	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25
Loans (Rs mn)	6,02,700	6,29,417	6,66,840	7,02,094	7,30,870	7,63,242	7,99,490	839,869	867,040
Loans YoY (%)	6.6	12.4	14.7	17.0	21.3	21.3	19.9	19.6	18.6
Loans QoQ (%)	0.4	4.4	5.9	5.3	4.1	4.4	4.7	5.1	3.2
Liability Profile (%)									
CASA	36.0	36.2	36.6	37.3	37.3	35.7	33.8	35.2	32.6
CA	15.4	14.8	15.7	17.4	17.7	16.5	15.0	17.4	14.6
SA	20.6	21.4	20.9	19.9	19.6	19.2	18.8	17.8	17.9
No. of Branches	502	507	516	517	520	528	538	545	545
NIM	5.04	5.02	5.27	5.62	5.53	5.54	5.52	5.45	5.67
Yield on Advances	11.22	11.46	11.96	12.60	12.80	14.03	14.00	14.12	14.20
Cost of Deposits	4.84	5.19	5.55	5.85	6.15	6.21	6.31	6.39	6.50
Asset Quality									
GNPA (%)	4.1	3.8	3.6	3.4	3.2	3.1	3.1	2.7	2.7
NNPA (%)	1.2	1.3	1.2	1.1	1.0	0.8	0.8	0.7	0.7
PCR (%)	72.5	67.8	68.0	68.1	69.6	75.6	75.1	72.7	73.1
Slippages (Rs mn)	6,530	8,120	6,080	6,810	5,550	5,410	6,660	6,800	7,200
Slippages - Annualized (%)	4.6	5.8	4.2	4.5	3.7	3.4	4.0	3.9	3.9
CAR (%)	17.5	17.4	17.0	17.0	16.7	16.5	15.7	16.2	15.2
Tier I (%)	16.0	15.9	15.5	15.3	15.1	15.2	14.6	14.4	13.8
ROE Decomposition on total assets (%)									
NII	4.4	4.4	4.7	4.8	4.9	4.9	4.9	4.8	5.0
Other Income (Ex Treasury)	2.0	2.0	2.2	2.3	2.2	2.2	2.3	2.5	2.2
Treasury	0.3	0.1	0.1	0.0	0.2	0.1	0.2	0.1	0.1
Opex	4.8	4.6	4.9	5.1	5.0	4.8	5.0	4.8	4.8
PPOP	2.0	1.9	2.1	2.1	2.2	2.4	2.4	2.7	2.5
Provisioning Cost	0.9	0.9	1.1	0.8	0.9	2.1	1.5	1.2	1.1
PBT	1.0	1.0	1.0	1.3	1.3	0.3	1.0	1.4	1.4
Tax	0.3	0.3	0.2	0.3	0.3	(0.7)	0.2	0.4	0.4
ROA	0.7	0.8	0.8	1.0	1.0	1.0	0.7	1.1	1.1
ROE	6.3	6.2	6.3	8.1	8.4	8.4	6.5	9.7	9.9

Source: Company, Emkay Research

RBL Bank: Standalone Financials and Valuations

Profit & Loss					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	96,764	123,943	148,025	172,945	202,798
Interest Expense	46,784	63,514	76,478	87,723	100,006
Net interest income	49,980	60,429	71,547	85,221	102,792
NII growth (%)	24.1	20.9	18.4	19.1	20.6
Other income	24,823	30,429	36,641	44,826	54,867
Total Income	74,803	90,858	108,188	130,047	157,658
Operating expenses	52,850	60,550	68,697	77,715	88,002
PPOP	21,954	30,307	39,490	52,332	69,656
PPOP growth (%)	(20.0)	38.1	30.3	32.5	33.1
Core PPOP	20,732	28,622	37,131	49,383	66,118
Provisions & contingencies	10,219	17,785	18,187	23,606	31,732
PBT	11,734	12,523	21,303	28,726	37,924
Extraordinary items	0	0	0	0	0
Tax expense	2,978	844	5,368	7,230	9,546
Minority interest	0	0	0	0	0
Income from JV/Associates	0	0	0	0	0
Reported PAT	8,756	11,679	15,935	21,496	28,379
PAT growth (%)	(1,270.0)	33.4	36.4	34.9	32.0
Adjusted PAT	8,756	11,679	15,935	21,496	28,379
Diluted EPS (Rs)	14.6	19.4	26.3	35.5	46.8
Diluted EPS growth (%)	(1,268.5)	32.8	35.7	34.8	32.0
DPS (Rs)	1.5	2.0	2.5	3.0	3.5
Dividend payout (%)	10.3	10.4	9.5	8.5	7.5
Effective tax rate (%)	25.4	6.7	25.2	25.2	25.2
Net interest margins (%)	4.9	5.2	5.2	5.2	5.2
Cost-income ratio (%)	70.7	66.6	63.5	59.8	55.8
Shares outstanding (mn)	599.6	605.1	606.0	606.0	606.0

Source: Company, Emkay Research

Asset quality and other metrics					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Asset quality					
Gross NPLs	24,198.5	22,708.5	25,562.0	32,410.3	41,063.6
Net NPLs	7,725.4	6,199.4	7,157.4	9,399.0	12,319.1
GNPA ratio (%)	3.4	2.7	2.5	2.7	2.8
NNPA ratio (%)	1.1	0.7	0.7	0.8	0.8
Provision coverage (%)	68.1	72.7	72.0	71.0	70.0
Gross slippages	27,547.0	24,420.0	28,534.5	34,241.4	43,266.5
Gross slippage ratio (%)	3.8	2.9	2.8	2.8	2.9
LLP ratio (%)	4.6	1.3	1.8	1.9	2.1
NNPA to networth (%)	6.1	5.5	4.0	4.1	4.9
Capital adequacy					
Total CAR (%)	16.9	15.4	14.4	13.6	12.9
Tier-1 (%)	15.3	13.9	13.0	12.4	11.8
CET-1 (%)	15.3	13.9	13.0	12.4	11.8
RWA-to-Total Assets (%)	73.5	74.0	74.0	74.0	74.0
Miscellaneous					
Total income growth (%)	15.6	27.0	19.6	17.9	18.3
Opex growth (%)	45.9	14.6	13.5	13.1	13.2
Core PPOP growth (%)	(16.9)	38.1	29.7	33.0	33.9
PPOP margin (%)	18.1	19.6	21.4	24.0	27.0
PAT/PPOP (%)	39.9	38.5	40.4	41.1	40.7
LLP-to-Core PPOP (%)	49.3	62.1	49.0	47.8	48.0
Yield on advances (%)	11.9	13.1	13.1	13.0	12.7
Cost of funds (%)	5.0	5.9	5.9	5.7	5.4

Source: Company, Emkay Research

Balance Sheet					
Y/E Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Share capital	5,996	6,051	6,060	6,060	6,060
Reserves & surplus	129,770	141,913	157,435	177,112	203,370
Net worth	135,766	147,964	163,495	183,172	209,430
Deposits	848,865	1,034,936	1,260,483	1,530,760	1,872,226
Borrowings	133,313	141,841	149,718	143,497	137,637
Interest bearing liab.	982,178	1,176,777	1,410,201	1,674,257	2,009,863
Other liabilities & prov.	40,818	59,581	58,485	81,122	105,676
Total liabilities & equity	1,158,762	1,384,322	1,632,181	1,938,552	2,324,969
Net advances	702,094	839,869	1,000,686	1,199,897	1,463,204
Investments	288,754	295,759	354,936	422,643	508,718
Cash, other balances	85,200	144,166	155,122	175,797	190,937
Interest earning assets	1,076,048	1,279,793	1,510,744	1,798,337	2,162,858
Fixed assets	5,740	5,324	6,548	8,010	9,760
Other assets	76,974	99,205	114,889	132,204	152,351
Total assets	1,158,762	1,384,322	1,632,181	1,938,552	2,324,969
BVPS (Rs)	226.4	245.7	270.0	302.3	345.6
Adj. BVPS (INR)	216.8	237.9	261.1	290.7	330.4
Gross advances	718,567	856,378	1,019,090	1,222,908	1,491,948
Credit to deposit (%)	82.7	81.2	79.4	78.4	78.2
CASA ratio (%)	35.3	37.4	35.2	33.0	32.7
Cost of deposits (%)	4.9	5.8	5.9	5.7	5.5
Loans-to-Assets (%)	60.6	60.7	61.3	61.9	62.9
Net advances growth (%)	17.0	19.6	19.1	19.9	21.9
Deposit growth (%)	7.4	21.9	21.8	21.4	22.3
Book value growth (%)	7.5	8.5	9.9	12.0	14.3

Source: Company, Emkay Research

Valuations and key Ratios					
Y/E Mar	FY23	FY24	FY25E	FY26E	FY27E
P/E (x)	16.5	12.4	9.1	6.8	5.1
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)	6.6	4.8	3.7	2.8	2.1
Dividend yield (%)	0.6	0.8	1.0	1.2	1.5
DuPont-RoE split (%)					
NII/avg assets	3.9	4.5	4.8	4.7	4.8
Other income	2.2	2.4	2.4	2.5	2.6
Fee income	1.4	1.5	1.5	1.6	1.7
Opex	4.8	4.8	4.6	4.4	4.1
PPOP	2.0	2.4	2.6	2.9	3.3
Core PPOP	1.9	2.3	2.5	2.8	3.1
Provisions	0.9	1.4	1.2	1.3	1.5
Tax expense	0.3	0.1	0.4	0.4	0.4
RoA (%)	0.8	0.9	1.1	1.2	1.3
Leverage ratio (x)	8.2	8.5	9.0	9.7	10.3
RoE (%)	6.7	8.2	10.2	12.4	14.5
Quarterly data					
Rs mn, Y/E Mar	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25
NII	14,222	14,750	15,459	15,999	17,000
NIM(%)	5.5	5.5	5.5	5.5	5.5
PPOP	6,476	7,310	7,653	8,870	8,591
PAT	2,880	2,937	2,328	3,526	3,715
EPS (Rs)	4.80	4.90	3.88	5.88	5.96

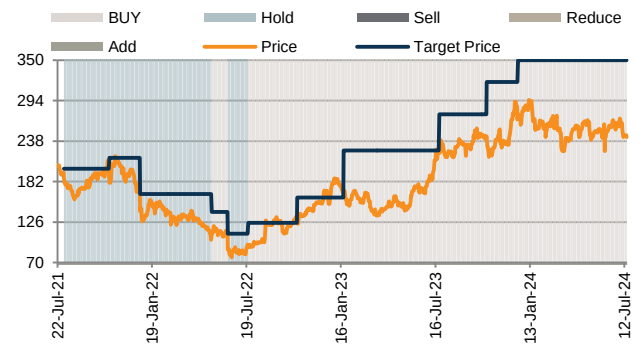
Source: Company, Emkay Research

RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (INR)	TP (INR)	Rating	Analyst
28-Apr-24	265	350	Buy	Anand Dama
21-Jan-24	269	350	Buy	Anand Dama
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

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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ADD	5-15% upside
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CIN - L67120MH1995PLC084899

7th Floor, The Ruby, Senapati Bapat Marg, Dadar - West, Mumbai - 400028. India
Tel: +91 22 66121212 Fax: +91 22 66121299 Web: www.emkayglobal.com

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