

January 19, 2024

RESULT REPORT Q3 FY24 | Sector: Banks

RBL Bank Ltd

Asset quality outcomes necessitate caution

Our view - Elevated slippage ratio in relatively benign cycle symptomatic of inherent cyclicality

Material rise in slippages from an already elevated level was contributed to from all key retail buckets: Gross NPA additions amounted to Rs 6.66bn for 3QFY24 compared with Rs 5.41bn during 2QFY24. Microfinance, Credit cards and Other retail contributed Rs 1bn, Rs 3.7bn and Rs 1.5bn, respectively to gross slippage. Management stated that microfinance recovery was impacted in some election states but overall collection efficiency is back to 99.4%. Provisions were Rs 4.58bn, down by -28.5% QoQ but up by 56.5% YoY, translating to annualised credit cost of 188bps. The Bank has created a contingent provision of Rs 1.15 bn on AIF investments during the quarter.

There was ~20 bps contraction in retail yield owing to slowdown in microfinance: There was somewhat adverse evolution of yield on advances, with the retail yield declining ~20 bps QoQ to 17.3%. Overall yield inched lower 3 bps QoQ to 14.0%. Yield was softer due to slow down in microfinance lending, which caused microfinance book to remain flattish on sequential basis. The bank would be able to maintain NIM at current level in 4Q.

Overall loan growth outcomes remained positive but are currently not translating into return ratios: Overall loan growth was 20% YoY and 5% QoQ. Within this, retail loans have grown faster at 33% YoY and 5% QoQ owing to the focus on the same. In terms of guidance, overall loan growth will be 20% YoY. Within this, retail loan growth will be 25% and within retail loans, secured loans would grow at 25-30%. Calculated annualised RoA and RoE for 9M is 89 bps and 7.8%, respectively, whereas, RBL already trades at 1x FY25 P/BV.

We maintain a less-than-bullish 'ADD' rating on RBL with a revised price target of Rs 315: We value the bank at 1.2x FY25 P/BV for an FY24E/25E/26E RoE profile of 8.4%/10.2%/11.7%.

(See Comprehensive con call takeaways on page 2 for significant incremental colour.)

Result Highlights (See "Our View" above for elaboration and insight)

- Asset quality:** Gross slippages amounted to Rs 6.66bn (annualised slippage ratio of 3.5%), with net slippages amounting to Rs 4.66bn.
- Margin picture:** NIM at 5.52% was down -2 bp QoQ as sequentially cost of deposits have moved up but yield on advances have shrunk.
- Asset growth:** Advances grew 4.7%/19.9% QoQ/YoY, driven sequentially by Commercial banking and select segments of retail loans.
- Opex control:** Total opex grew 7.6%/17.3% QoQ/YoY, employee exp. grew 6.4%/19.8% QoQ/YoY and other expense grew 8%/16.4% QoQ/YoY.
- Fee income:** Core fee income grew 7.5%/23.6% QoQ/YoY, sequentially driven higher by Processing fees, Distribution and Payment related fees.

Exhibit 1: Result table

(Rs mn)^	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy
Total Interest Income	31,914	30,080	6.1	24,978	27.8
Interest expended	(16,455)	(15,330)	7.3	(12,205)	34.8
Net Interest Income	15,459	14,750	4.8	12,773	21.0
Other income	7,776	7,044	10.4	6,184	25.7
Total Income	23,234	21,794	6.6	18,957	22.6
Operating expenses	(15,582)	(14,484)	7.6	(13,285)	17.3
PPoP	7,653	7,310	4.7	5,672	34.9
Provisions	(4,581)	(6,404)	(28.5)	(2,927)	56.5
PBT	3,071	906	238.9	2,745	11.9
Tax	(740)	2,035	(136.4)	(655)	13.0
PAT	2,331	2,941	(20.7)	2,090	11.5

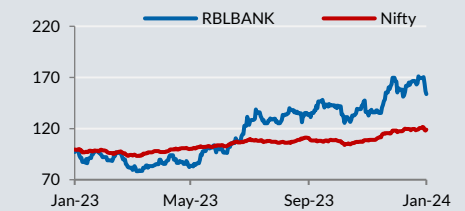
Source: Company, YES Sec-Research, ^All numbers in this table are based on new reclassified format hence comparable both on YoY and QoQ basis

Recommendation	: ADD
Current Price	: Rs 265
Target Price	: Rs 315
Potential Return	: +19%

Stock data (as on January 19, 2024)

Nifty	21,622
52 Week h/l (Rs)	301 / 132
Market cap (Rs/USD mn)	162893 / 1961
Outstanding Shares (mn)	604
6m Avg t/o (Rs mn):	2,658
Div yield (%):	NA
Bloomberg code:	RBK IN
NSE code:	RBLBANK

Stock performance



Shareholding pattern (As of Dec'23 end)

Promoter	0.0%
FII+DII	48.0%
Others	52.0%

Δ in stance

(1-Yr)	New	Old
Rating	ADD	ADD
Target Price	315	330

Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
NII	51,820	61,377	73,941
PPOP	29,317	36,989	45,400
Net Profit	11,778	15,583	19,572
Growth (%)	33.4	32.3	25.6
EPS (Rs)	19.6	26.0	32.6
BVPS (Rs)	242	265	294
P/E (x)	13.5	10.2	8.1
P/BV (x)	1.1	1.0	0.9
ROE (%)	8.4	10.2	11.7
ROA (%)	0.9	1.0	1.1
Tier-1 (%)	14.1	12.8	11.9

N.B. Numbers in this table are pre-reclassification

Δ in earnings estimates

Rs.	FY24E	FY25E	FY26E
EPS (New)	19.6	26.0	32.6
EPS (Old)	20.6	27.0	33.6
% change	-4.6%	-3.6%	-2.8%

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COMPREHENSIVE CON-CALL TAKEAWAYS

Asset quality

- **Slippages**
 - Gross NPA additions amounted to Rs 6.66bn for 3QFY24, translating to an annualized slippage ratio of 3.5% for the quarter. (Gross NPA additions had amounted to Rs 5.41bn during 2QFY24.)
 - **Segmental slippages**
 - Microfinance – Gross slippage of Rs 1bn, Net slippage of Rs 0.97bn
 - Credit cards – Gross slippage of Rs 3.7bn, Net slippage of Rs 3.24bn
 - Other retail – Gross slippage of Rs 1.5bn, Net slippage of Rs 0.49bn
 - Wholesale – Negative net slippage
 - **Microfinance asset quality**
 - Recovery was impacted in some election states but overall collection efficiency is back to 99.4%.
 - The bank was able to claw back in December and does not see any issue going forward.
- **Recoveries and upgrades**
 - Recoveries and upgrades amounted to Rs 2.0bn for 3QFY24, implying net NPA addition of Rs 4.66bn for the quarter.
- **Provisions**
 - Provisions were Rs 4.58bn, down by -28.5% QoQ but up by 56.5% YoY, translating to annualised credit cost of 188bps.
 - **Provision on AIF exposure**
 - The Bank has created a contingent provision of Rs 1.15 bn on AIF investments during the quarter.
 - The AIF is primarily a venture debt fund which has been investing in new age digital businesses over the past decade and management does not see challenges in realization.
 - The net asset value of the investments made by the fund is Rs 1.61bn and the provision made is not against any impairment.
- **Restructured book**
 - The net restructured book amounted to 63 bps vs 98 bps on sequential basis.

Loan growth

- Overall loan growth was 20% YoY and 5% QoQ.
- **Retail lending**
 - Retail loans have grown faster at 33% YoY and 5% QoQ owing to the focus on the same.
 - **Secured lending**
 - Within retail loans, secured loans have grown even faster at 56% YoY and 13% QoQ.
 - Direct sourcing locations for secured loans have risen from 68 to 185, with 51 more to be added in 2 quarters.
 - **Microfinance**
 - Microfinance book was flat sequentially since lending has been slowed due to elections in certain states but the intention is to ramp up again in 4Q.
 - **Credit cards**
 - 0.575mn cards were added during the quarter.
 - The bank is diversifying sourcing and is adding new partners.

(Con call takeaways continue on the next page)

- The bank is now adding 20,000 cards per month from direct sales and branches.
- 2000 DSTs have been added to source credit cards.
- **Sourcing split**
 - The share of Bajaj Finance used to be 85% but has declined to 65%.
 - The bank intends to take Non-Bajaj sourcing to 50% in the coming quarters.
 - 25-30% share will come from other co-brands and a further 25-30% from internal sourcing.
- **Regulation**
 - The RBI had granted a 1-year extension to the Bajaj Finance- RBL Bank credit card partnership till December 2024, citing deficiencies.
 - Management stated that they are confident that they would be able to meet the RBI requirements in this regard.
- **Credit limit aspect**
 - Cards with a credit limit below Rs 25,000 are 2-3% of total.
- **Wholesale lending**
 - Wholesale loans have grown at 6% YoY and 4% QoQ.
 - Within this, commercial banking loans have grown 19% YoY and 7% QoQ.
- **Growth guidance**
 - Overall loan growth will be 20% YoY.
 - Within this, retail loan growth will be 25% and within retail loans, secured loans would grow at 25-30%.

Deposits growth

- Total deposits are up 13% YoY and 3% QoQ.
- Small ticket deposits below Rs 20mn in ticket size have grown 23% YoY and 5% QoQ.
- These small ticket deposits occupy 45% of total deposits and the intention is to take this to 50% in the coming quarters.
- These retail deposits will continue to grow in a similar range of 23-26% YoY.
- Now, the 800 outlets of the business correspondent entity have also been deployed to source deposits, taking the total touch points to 1300 plus, including 500 or so branches.

Net interest margin

- **NIM for the quarter**
 - NIM was at 5.52%, down -2 bps QoQ but up by 25bps YoY.
- **Liquidity**
 - There was some liquidity utilisation which protected NIM, ceteris paribus.
 - **Loan to deposit ratio**
 - The LDR is 86% and the bank would like to be in the 83-85% range.
 - Management stated that LDR should be viewed along with refinance, which is a good funding opportunity for the bank.
 - If refinance is included in the denominator, the ratio would be 73%, indicating sufficient headroom.
- **Yield on advances**
 - There was adverse evolution of yield on advances, with overall yield inching lower 3 bps QoQ to 14.0%.
 - Yield was softer due to slow down in microfinance lending.
 - The retail yield on advances will remain stable at 17.5%.

(Con call takeaways continue on the next page)

- **Cost of deposits**
 - The cost of deposits has risen 10 bps QoQ to 6.31%.
- **NIM guidance**
 - The bank would be able to maintain NIM at current level in 4Q.
 - A large part of the loan growth was back-ended in 3Q, which should help NIM in 4Q, ceteris paribus.

Fee income

- The core fee income has risen 23% YoY and 7% QoQ to Rs 7.29bn.
- An in-house switch for UPI has been developed that will handle 10mn transactions per day and aid fee income.

Operating expenses

- **Total opex**
 - Total opex, at Rs. 15.58 bn, is up 7.6% QoQ and 17.3% YoY.
 - Consequently, cost/income ratio came in at 67.1%, up by 60bps QoQ but down -302bps YoY.
 - Opex was driven by business acquisition cost, marketing spends and employee addition.
- **Staff expenses**
 - The staff opex is up by 6.4% QoQ and 19.8% YoY.
- **Non-staff expenses**
 - Other opex is up by 8% QoQ and 16.4% YoY.

Levers for RoA expansion

- Net interest margin through rise in share of retail loans.
- Cost efficiency through operating leverage.
- Credit cost through healthy recoveries.

Capital adequacy

- Capital adequacy ratio stands at 16.42%.
- The CET1 ratio stands at 14.58% compared with 15.15% in the sequentially previous quarter.
- The net decline in CET1 has been 57 bps since there was some cushion from capital efficiency.
- The impact from the regulatory change alone on gross basis was 75 bps on CET1 ratio.

Exhibit 2: Key quarterly balance sheet / business data

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY23	% yoy	Q3 FY24*	chg qoq*	chg yoy*
Advances	799,490	763,250	4.7	666,850	19.9	100.0	0bps	0bps
Wholesale	335,780	322,330	4.2	317,070	5.9	42.0	-23bps	-555bps
Corporate & Institutional Banking	246,660	238,880	3.3	242,140	1.9	30.9	-45bps	-546bps
Commercial Banking	89,120	83,450	6.8	74,930	18.9	11.1	21bps	-9bps
Retail	463,710	440,920	5.2	349,780	32.6	58.0	23bps	555bps
Business Loans	74,330	83,150	(10.6)	73,420	1.2	9.3	-160bps	-171bps
Credit Card	159,640	149,690	6.6	124,080	28.7	20.0	36bps	136bps
Personal Loan	35,470	36,990	(4.1)	32,250	10.0	4.4	-41bps	-40bps
Micro-Banking	68,270	67,850	0.6	50,210	36.0	8.5	-35bps	101bps
Housing loans	61,460	49,410	24.4	41,420	48.4	7.7	121bps	148bps
Retail Agri	16,310	13,600	19.9	12,600	29.4	2.0	26bps	15bps
Rural Vehicle Finance	19,970	14,420	38.5	7,770	157.0	2.5	61bps	133bps
Others	28,260	25,810	9.5	8,030	251.9	3.5	15bps	233bps
Deposits	927,460	897,804	3.3	817,460	13.5	100.0	0bps	0bps
CA	139,119	148,138	(6.1)	128,341	8.4	15.0	-150bps	-70bps
SA	174,362	172,378	1.2	170,849	2.1	18.8	-40bps	-210bps
Term	613,979	577,288	6.4	518,270	18.5	66.2	190bps	280bps
Borrowings	148,000	153,015	(3.3)	106,230	39.3	NA	NA	NA
Borrowings/(Borr. + Deposits) (%)	13.8	14.6	-80bps	11.5	226bps	NA	NA	NA
Investments	278,520	296,433	(6.0)	267,770	4.0	NA	NA	NA
Investments/(Invest. + Net Adv.) (%)	25.8	28.0	-214bps	28.7	-281bps	NA	NA	NA
RWA	946,400	894,820	5.8	833,530	13.5	NA	NA	NA

Source: Company, YES Sec – Research, *Share in total and change in share

Exhibit 3: Key quarterly ratios

(%)	Q3 FY24	Q2 FY24	chg qoq	Q3 FY23	chg yoy
Net interest margin	5.52	5.54	-2bps	5.27	25bps
Yield on advances	14.00	14.03	-3bps	11.96	204bps
Cost of deposits	6.31	6.21	10bps	5.47	84bps
CASA	33.8	35.7	-195bps	36.6	-285bps
Loan to Deposit ratio	86.2	85.0	119bps	81.6	463bps
Non-interest income/Total income	33.5	32.3	114bps	32.6	84bps
Fee Income to Avg. Total Assets	2.3	2.2	8bps	2.2	15bps
Cost to Income	67.1	66.5	60bps	70.1	-302bps
Opex to Avg. Total Assets	5.0	4.8	18bps	4.9	6bps
RoE^	6.5	8.4	-190bps	6.3	23bps
RoA^	0.8	1.0	-25bps	0.8	-3bps
Annualised Slippage Ratio	3.5	3.0	52bps	3.9	-36bps
Provision coverage ratio	89.3	88.4	90bps	84.7	460bps
Gross NPA	3.1	3.1	0bps	3.6	-49bps
Net NPA	0.8	0.8	-3bps	1.2	-43bps
Capital adequacy ratio	15.7	16.5	-82bps	16.3	-66bps
Tier I capital ratio	14.6	15.2	-55bps	15.5	-90bps

Source: Company, YES Sec – Research, ^Annualised

Exhibit 4: Quarterly Actuals Vs Estimates

Q3FY24 (Rs. mn)	Actuals	Estimates	Diff, %
Net Interest Income	15,459	15,414	0.3
Pre-Prov. Operating Profit	7,653	7,869	(2.7)
Profit After Tax	2,331	3,676	(36.6)

Source: Company, YES Sec – Research

Exhibit 5: Operating Expense Break-up

(Rs mn)	Q3FY24	Q2FY24	% qoq	Q3FY23	% yoy
Employee Expense	3,989	3,747	6.4	3,329	19.8
Other Operating Expense	11,593	10,737	8.0	9,956	16.4
Total Operating Expense	15,582	14,484	7.6	13,285	17.3

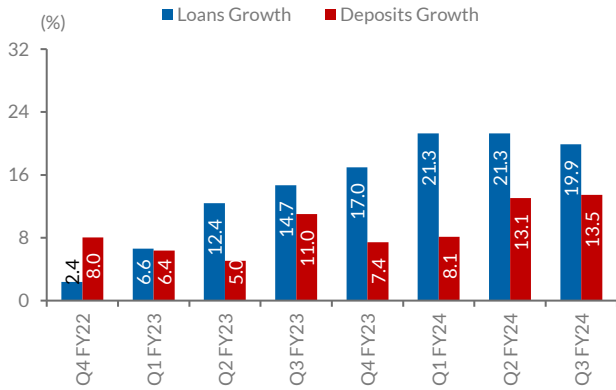
Source: Company, YES Sec - Research

Exhibit 6: Non-Interest Income Break-up

(Rs mn)	Q3 FY24	Q2 FY24	% qoq	Q3 FY24	% yoy
Total Fee Income (A)	7,290	6,780	7.5	5,900	23.6
FX	656	678	(3.2)	708	(7.3)
Processing Fee	2,479	2,102	17.9	1,888	31.3
General Banking Fees	1,750	1,831	(4.4)	1,593	9.8
Distribution	510	407	25.4	177	188.3
Payments Related	1,677	1,492	12.4	1,298	29.2
Trade & Others	219	271	(19.4)	236	(7.3)
Other Income (B)	486	264	83.7	284	70.8
Total Non-Interest Income (A+B)	7,776	7,044	10.4	6,184	25.7

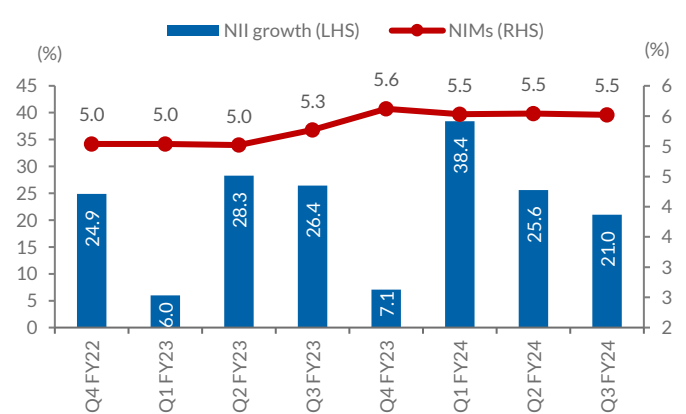
Source: Company, YES Sec - Research

Exhibit 7: Loans and Deposits growth (YoY %)



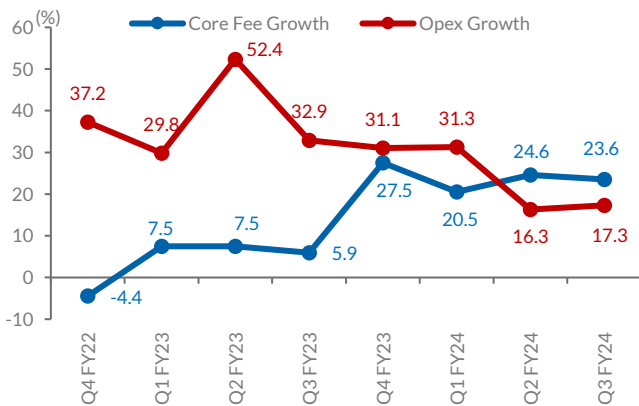
Source: Company, YES Sec – Research

Exhibit 8: NII growth (YoY %) and NIM



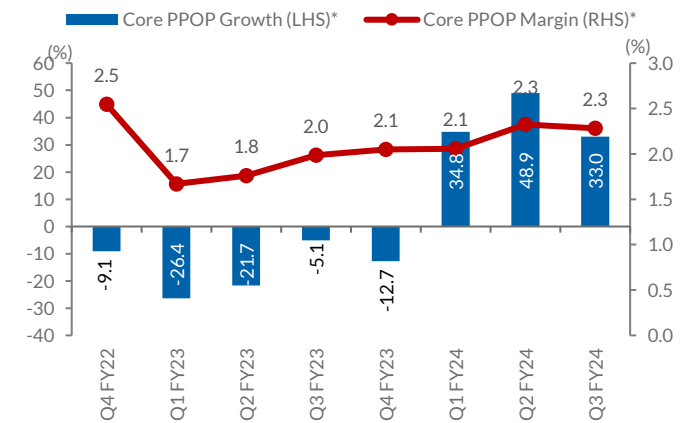
Source: Company, YES Sec – Research

Exhibit 9: Core Fee and Opex growth (YoY %)



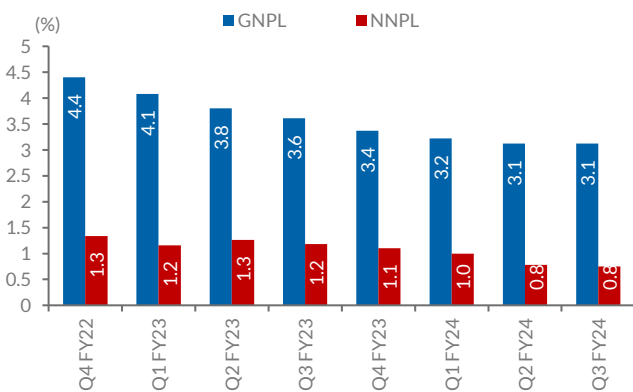
Source: Company, YES Sec – Research

Exhibit 10: Core PPOP growth (YoY %) and Core PPOP margin (%)



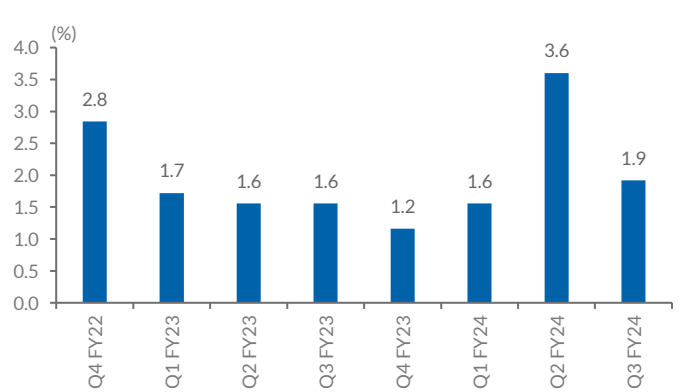
Source: Company, YES Sec – Research, * Core PPOP is derived by adjusting PPOP for gain/loss on sale of investments and misc. income

Exhibit 11: Gross NPA and Net NPA (%)



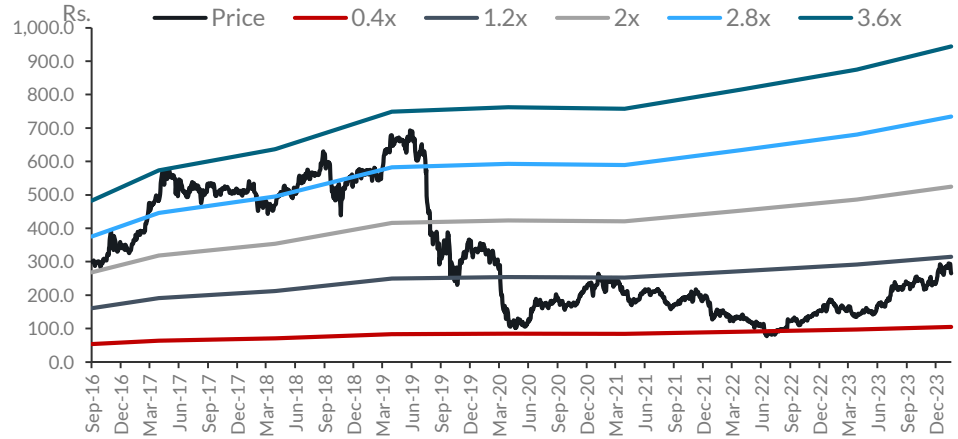
Source: Company, YES Sec – Research

Exhibit 12: Credit cost (%)



Source: Company, YES Sec – Research

Exhibit 13: 1-year rolling P/BV band



Source: Company, YES Sec – Research

Exhibit 14: 1-yr rolling P/BV vis-a-vis the mean and standard deviations



Source: Company, YES Sec – Research

ANNUAL FINANCIALS

Exhibit 15: Balance sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Total cash & equivalents	175,477	85,200	134,802	181,983	242,644
Investments	222,744	288,754	272,187	325,575	389,357
Advances	600,218	702,094	842,512	1,011,015	1,213,218
Fixed assets	5,481	5,740	6,888	8,265	9,918
Other assets	58,166	76,974	92,369	110,842	133,011
Total assets	1,062,086	1,158,762	1,348,757	1,637,680	1,988,148
Net worth	126,182	135,766	145,291	159,004	176,227
Deposits	790,065	848,865	975,242	1,177,445	1,420,088
Borrowings	110,930	133,313	168,597	221,506	288,401
Other liabilities	34,908	40,818	59,628	79,724	103,431
Total liabilities incl. Equity	1,062,086	1,158,762	1,348,757	1,637,680	1,988,148

Source: Company, YES Sec – Research; N.B. Numbers in this table are pre-reclassification

Exhibit 16: Income statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	81,758	91,298	108,481	130,199	158,264
Interest expense	(41,491)	(46,784)	(56,661)	(68,822)	(84,323)
Net interest income	40,267	44,515	51,820	61,377	73,941
Non-interest income	23,405	24,894	31,960	38,549	46,185
Total income	63,673	69,409	83,780	99,926	120,126
Operating expenses	(36,220)	(47,384)	(54,463)	(62,937)	(74,726)
PPoP	27,453	22,024	29,317	36,989	45,400
Provisions	(26,687)	(10,511)	(16,558)	(16,163)	(19,245)
Profit before tax	766	11,514	12,760	20,825	26,155
Taxes	(1,513)	(2,687)	(982)	(5,242)	(6,583)
Net profit	-747	8,827	11,778	15,583	19,572

Source: Company, YES Sec – Research; N.B. Numbers in this table are pre-reclassification

Exhibit 17: Du Pont Analysis (RoA tree)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Interest income	7.9	8.2	8.7	8.7	8.7
Interest expense	-4.0	-4.2	-4.5	-4.6	-4.7
Net interest income	3.9	4.0	4.1	4.1	4.1
Non-interest income	2.3	2.2	2.5	2.6	2.5
Total income	6.2	6.3	6.7	6.7	6.6
Operating expenses	-3.5	-4.3	-4.3	-4.2	-4.1
PPoP	2.7	2.0	2.3	2.5	2.5
Provisions	-2.6	-0.9	-1.3	-1.1	-1.1
Profit before tax	0.1	1.0	1.0	1.4	1.4
Taxes	-0.1	-0.2	-0.1	-0.4	-0.4
Net profit	-0.1	0.8	0.9	1.0	1.1

Source: Company, YES Sec – Research; N.B. Numbers in this table are pre-reclassification

Exhibit 18: Change in annual estimates

Y/e 31 Mar (Rs mn)	Revised Estimate			Earlier Estimate			% Revision		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Interest Income	51,820	61,377	73,941	52,115	61,989	74,567	(0.6)	(1.0)	(0.8)
Pre-Prov. Operating Profit	29,317	36,989	45,400	29,698	37,784	46,207	(1.3)	(2.1)	(1.7)
Profit after tax	11,778	15,583	19,572	12,352	16,163	20,144	(4.6)	(3.6)	(2.8)

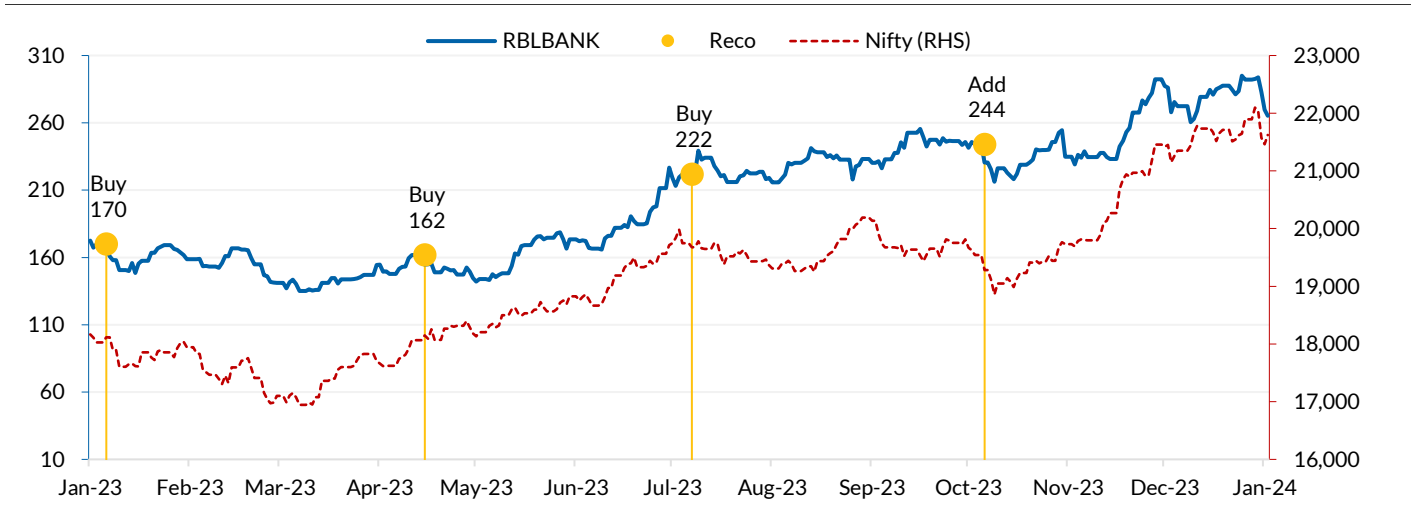
Source: Company, YES Sec – Research; N.B. Numbers in this table are pre-reclassification

Exhibit 19: Ratio analysis

Y/e 31 Mar	FY22	FY23	FY24E	FY25E	FY26E
Growth matrix (%)					
Net interest income	6.3	10.5	16.4	18.4	20.5
PPoP	-5.9	-19.8	33.1	26.2	22.7
Net profit	-114.7	NA	33.4	32.3	25.6
Loans	2.4	17.0	20.0	20.0	20.0
Deposits	8.0	7.4	14.9	20.7	20.6
Profitability Ratios (%)					
Net interest margin	4.4	4.6	4.7	4.7	4.7
Return on Average Equity	-0.6	6.7	8.4	10.2	11.7
Return on Average Assets	-0.1	0.8	0.9	1.0	1.1
Per share figures (Rs)					
EPS	-1.2	14.7	19.6	26.0	32.6
BVPS	210	226	242	265	294
ABVPS	197	214	222	236	254
Valuation multiples					
P/E	-213	18.0	13.5	10.2	8.1
P/BV	1.3	1.2	1.1	1.0	0.9
P/ABV	1.3	1.2	1.2	1.1	1.0
NIM internals (%)					
Yield on loans	10.6	11.0	11.3	11.4	11.5
Cost of deposits	4.7	4.9	5.1	5.2	5.2
Loan-deposit ratio	76.0	82.7	86.4	85.9	85.4
CASA ratio	35.3	37.4	37.4	37.5	37.5
Opex control (%)					
Cost/Income ratio	56.9	68.3	65.0	63.0	62.2
Cost to average assets	3.5	4.3	4.3	4.2	4.1
Capital adequacy (%)					
Tier 1 capital ratio	16.2	15.3	14.1	12.8	11.9
Asset quality (%)					
Slippage ratio	6.6	4.2	3.0	3.0	3.0
Gross NPL ratio	4.4	3.4	3.5	3.6	3.6
Credit cost	4.2	1.7	1.6	1.6	1.6
Net NPL ratio	1.3	1.1	1.5	1.7	2.0

Source: Company, YES Sec – Research; N.B. Numbers in this table are pre-reclassification

Recommendation Tracker



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