1 December 2024

Update | Sector: Financials

RBL Bank

BSE SENSEX	S&P CNX
79,803	24,131

Stock Info

Bloomberg	RBK IN
Equity Shares (m)	608
M.Cap.(INRb)/(USDb)	94.2 / 1.1
52-Week Range (INR)	301 / 151
1, 6, 12 Rel. Per (%)	-9/-44/-55
12M Avg Val (INR M)	2231
Free float (%)	100.0

Financials Snapshot (INR b)

Y/E March	FY24	FY25E	FY26E
NII	60.4	66.6	78.3
OP	30.3	37.2	46.7
NP	11.7	10.2	17.2
NIM (%)	5.1	4.9	4.9
EPS (INR)	19.3	16.9	28.4
EPS Gr. (%)	31.1	-12.5	68.2
BV/Sh. (INR)	245	256	275
ABV/Sh. (INR)	235	246	264
Ratios			
RoA (%)	0.9	0.7	1.0
RoE (%)	8.2	6.7	10.7
Valuations			
P/E(X)	8.0	9.2	5.5
P/BV (X)	0.6	0.6	0.6
P/ABV (X)	0.7	0.6	0.6

CMP: INR155 TP: INR170 (+10%) Neutral

RBK and BFL mutually end co-branded credit card partnership

Credit card remains a key segment; new partnerships to mitigate impact

- **RBL Bank (RBK) and Bajaj Finance Limited (BFL) have mutually decided to stop the issuance of new co-branded credit cards.**
- **The partnership with BFL has sourced 3.4m co-branded cards and these cards will continue to operate as usual, with cardholders retaining full benefits. Upon renewal, these cards will be reissued as RBK-branded credit cards.**
- **RBK aims to diversify the sourcing partnerships with other NBFCs (Mahindra Finance, TVS Finance) and consumer brands (e.g., IOC, IRCTC) to reduce its reliance on any single partner.**
- **RBK remains committed to the credit card business and continues to see it as a core business segment. The bank is focused on growing the card business through direct channels as well as new partnerships, with a focus on attracting high-value customers who bring greater benefits to the bank.**
- **We moderate our growth and margin estimates and cut our FY25/26E PAT estimates by 5%/15%. We, thus, estimate RBK to deliver FY26 RoA/RoE at 0.9%/9.1%. We reiterate Neutral with a revised TP of INR170 (premised on 0.7x FY26E ABV).**

RBK ends co-branded credit card partnership with BFL

The co-branded partnership of RBK and BFL has been one of the largest in the country, with the bank issuing 3.4m co-branded credit cards under this partnership. Their mutual decision to end this tie-up is a significant one and reflects the changing economics of the cards business, a decline in card sourcing run-rate over the past year, and RBK's focus on diversifying its sourcing base and reducing its reliance on any single partner.

RBK aims to recover lost ground by 4QFY25 - New partnerships to help mitigate the impact

RBK is actively working to diversify its credit card business by forming partnerships with several other entities. The bank has, thus, not only tied up with other key NBFCs, such as Mahindra & Mahindra Finance and TVS Finance, but also with consumer brands such as IOC and IRCTC. This diversification strategy will mitigate risks associated with over-reliance on any one partner. RBK mentioned that the monthly card sourcing run-rate under its partnership with BFL has declined from 126,000 in Sep'23 to 37,000 cards in Sep'24 as the bank focuses more on the quality and value of the business amidst the challenging environment for the card business. The bank is focused on growing the card business through direct channels as well as new partnerships and aims to make up for lost volumes by 4QFY25 end. Currently, direct sourcing contributes 35% to new credit card issuance, and the bank aims to scale this to 50% over the next two quarters.

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No impact on existing card portfolio; BFL may exit card business - preempts any risk of losing customers

RBK mentioned that ~3.4m existing co-branded credit cards issued with BFL will continue to operate normally, with cardholders retaining full access to all benefits, rewards, and services. This ensures that RBK's existing customer base remains intact with no disruption in the service. Upon renewal, the cards will be reissued under the RBK brand, which will help reinforce its identity in the credit card segment. The bank suggested that BFL may completely exit the card sourcing business line and this, therefore, preempts any risk of customer poaching as BFL cards account for majority of RBK's outstanding cards.

No material impact on underlying profitability; the bank will look to maintain its market share

RBK does not anticipate any significant impact on profitability due to this development. The management mentioned that the bank is witnessing improved asset quality across all buckets and expects normalization in the coming quarters. The discontinuation of the credit card business with BFL will, thus, not alter the future growth trajectory. BFL had sourced approximately 30,000 to 40,000 cards per month. RBK's gross addition to credit cards has decreased from 250,000 to 125,000, and the bank expects this to drop to 100,000 over the next 3-4 months, aligning with the reduced sourcing rate for the industry overall as well as its focus on improving business quality. During 2QFY25, the credit card business grew at 17% and the bank mentioned that it expects the receivables to grow at a range of 10-15% in the upcoming quarters as it looks to broadly maintain market share.

Highlights from the call

- Credit card sourcing cost via BFL is 75% of what RBK incurs via its own channels cost though the bank pays additional trail pay-outs to BFL according to the terms of the agreement.
- We expect lower slippages in Q3 and further reductions in Q4. Outstanding receivables from BFL account for 50-55% of the total.
- Profitability in the upcoming quarters will remain stable with no significant changes to the pre-operating profit.
- The agreements with new co-brands are similar to those with BFL but with better terms. These include upfront pay-outs on origination and some trail payments in line with industry practices.

Valuation and view: Maintain Neutral with a revised TP of INR170

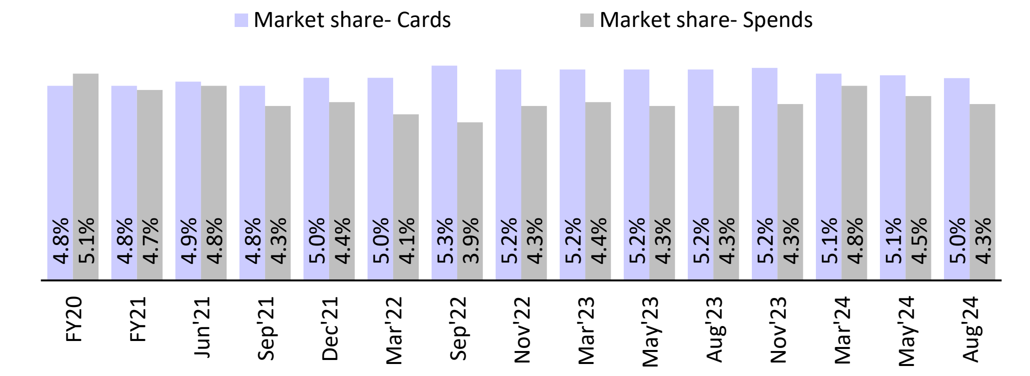
RBK has made significant progress in building its credit card business over the years. The decision to end the partnership and reduce its reliance on BFL is a part of the bank's effort to grow its business via a higher mix of direct channels as well as newer partnerships so as to have a more diversified sourcing base. The bank does not anticipate any significant impact on profitability due to this decision and has guided to grow the card business at 10-15% as it aims to recover the lost volumes by 4QFY25 itself. The management suggested that the bank is witnessing improved asset quality in this business and expects normalization in the coming quarters. We moderate our growth and margin estimates and resultantly cut our FY25/26E PAT estimates by 5%/15%. We, thus, estimate RBK to deliver FY26E RoA/RoE at 0.9%/9.1%. **Reiterate Neutral with a revised TP of INR170 (premised on 0.7x FY26E ABV).**

Exhibit 1: Credit Cards constitute ~20% of the total loan portfolio

INR b	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	2QFY25	YoY	QoQ
Credit Card book	176.6	149.7	159.6	170.4	173.9	175.4	17.2%	0.8%
Total Advances	730.9	763.2	799.5	839.9	867.1	878.8	15.1%	1.4%
As a percentage of total advances	24.2%	19.6%	20.0%	20.3%	20.1%	20.0%		

Source: MOFSL, Company

Exhibit 2: Bank's market share in o/s credit card and spends stood at 5%/4.3% in Aug'24



Source: MOFSL, Company

Story in charts

Exhibit 3: Loans & Deposits grew 15% YoY and 20% YoY

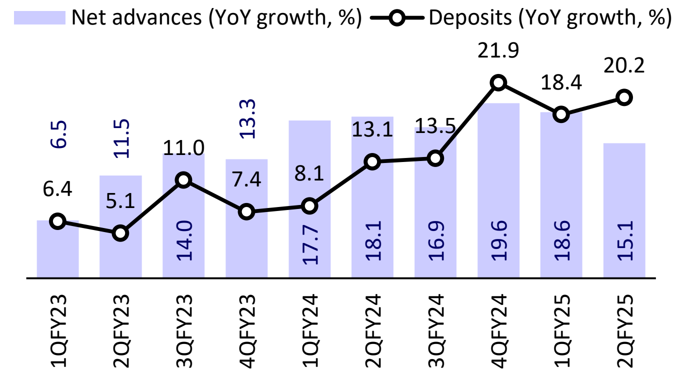


Exhibit 4: Mix of retail stands at 62% in 2QFY25

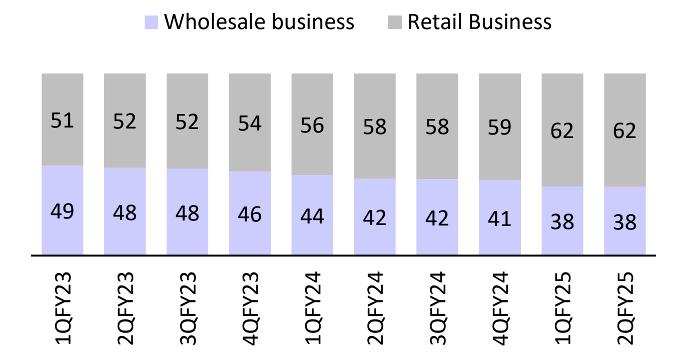


Exhibit 5: Market share in cards/spends stood at 5.0%/4.3%

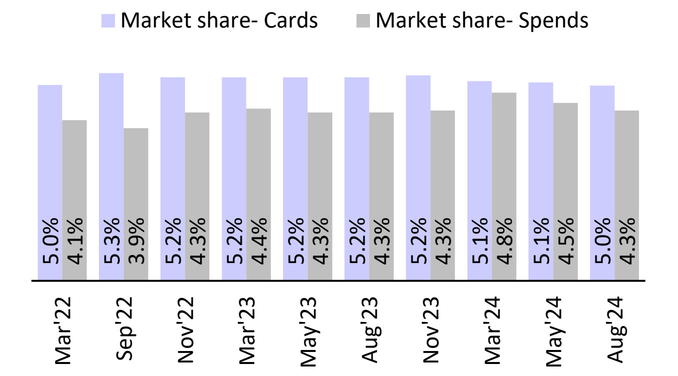


Exhibit 6: NIMs moderated 32bp QoQ to 5.35%

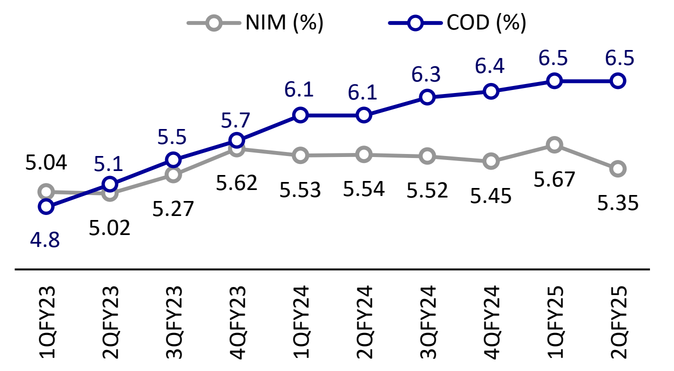


Exhibit 7: C/I ratio at 64.2%; Cost/asset annualized at 4.9%

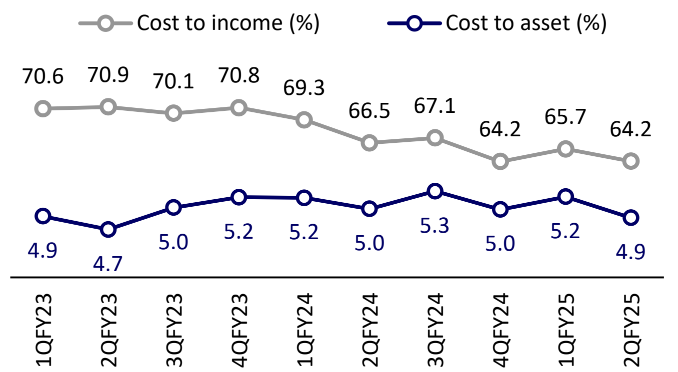


Exhibit 8: C/D ratio at 81.4%; LCR declined to 129%

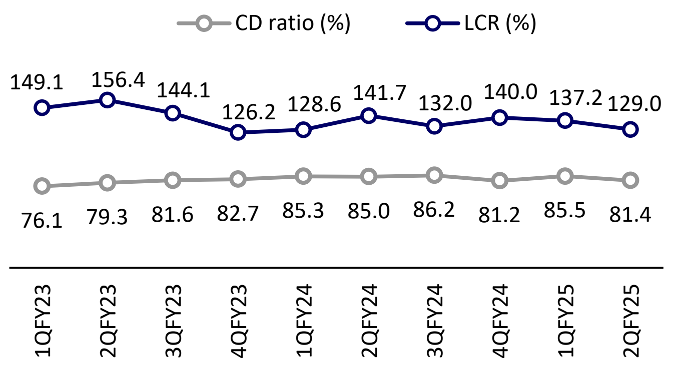
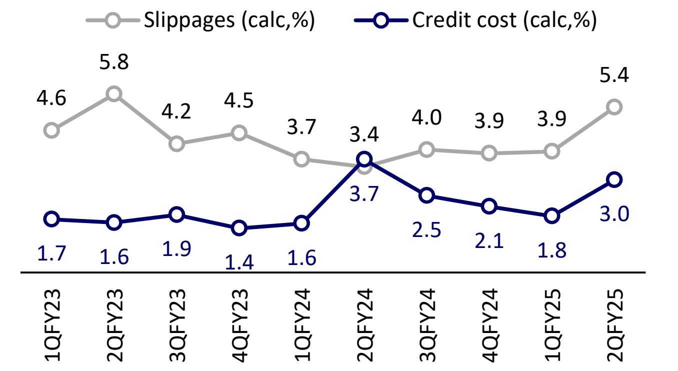
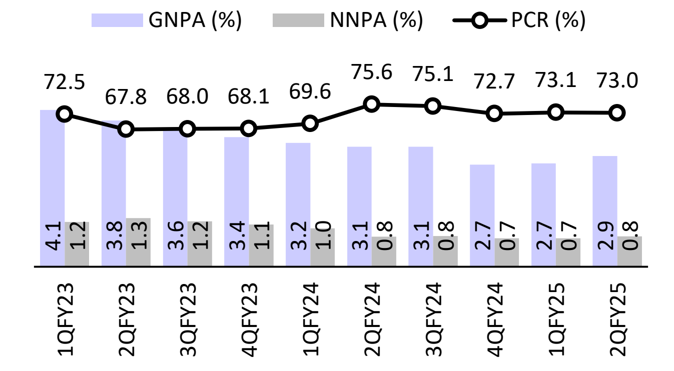


Exhibit 9: Slippage ratio stood at 5.4%; credit cost at 3%



Source: MOFSL, Company

Exhibit 10: GNPA/NNPA stood at 2.88%/0.79%; PCR at 73%



Source: MOFSL, Company

Exhibit 11: Annual Dupont

Y/E MARCH	FY22	FY23	FY24	FY25E	FY26E	FY27E
Interest Income	7.90	8.71	9.75	9.70	9.59	9.59
Interest Expense	4.01	4.21	5.00	5.29	5.43	5.36
Net Interest Income	**3.89**	**4.50**	**4.75**	**4.40**	**4.16**	**4.23**
Fee income	2.02	2.13	2.29	2.36	2.50	2.58
Trading and others	0.24	0.11	0.11	0.11	0.12	0.12
Non Interest income	**2.26**	**2.24**	**2.39**	**2.47**	**2.62**	**2.70**
Total Income	**6.16**	**6.74**	**7.15**	**6.87**	**6.78**	**6.93**
Operating Expenses	**3.50**	**4.76**	**4.76**	**4.46**	**4.39**	**4.33**
-Employee cost	0.97	1.21	1.17	1.19	1.18	1.19
-Others	2.53	3.55	3.59	3.27	3.21	3.14
Operating Profit	**2.65**	**1.98**	**2.38**	**2.41**	**2.39**	**2.60**
Core Operating Profit	**2.41**	**1.87**	**2.28**	**2.30**	**2.27**	**2.48**
Provisions	2.77	0.92	1.39	1.51	1.27	1.25
PBT	**-0.11**	**1.06**	**0.99**	**0.90**	**1.12**	**1.36**
Tax	-0.04	0.27	0.07	0.22	0.28	0.34
RoA	**-0.07**	**0.79**	**0.92**	**0.68**	**0.85**	**1.02**
Leverage (x)	8.2	8.5	9.0	9.8	10.6	11.4
RoE	**-0.6**	**6.7**	**8.2**	**6.6**	**9.0**	**11.7**

Source: MOFSL, Company

Financials and valuations

Income Statement						(INR b)
Y/E March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Interest Income	81.8	96.8	123.9	143.4	161.9	186.8
Interest Expense	41.5	46.8	63.5	78.3	91.6	104.4
Net Interest Income	**40.3**	**50.0**	**60.4**	**65.1**	**70.2**	**82.4**
-growth (%)	6.3	24.1	20.9	7.8	7.8	17.3
Non Interest Income	23.4	24.9	30.4	36.5	44.2	52.6
Total Income	**63.7**	**74.9**	**90.9**	**101.6**	**114.4**	**135.0**
-growth (%)	12.3	17.6	21.3	11.9	12.6	18.0
Operating Expenses	36.2	52.9	60.6	66.0	74.1	84.3
Pre Provision Profits	**27.5**	**22.0**	**30.3**	**35.7**	**40.4**	**50.7**
-growth (%)	-5.9	-19.8	37.6	17.7	13.1	25.6
Core PPoP	**25.0**	**20.8**	**29.0**	**34.0**	**38.4**	**48.4**
-growth (%)	-5.6	-16.7	39.2	17.6	12.8	25.9
Provisions	28.6	10.2	17.7	22.3	21.4	24.3
PBT	**-1.2**	**11.8**	**12.6**	**13.4**	**19.0**	**26.4**
Tax	-0.4	3.0	0.9	3.3	4.7	6.5
Tax Rate (%)	35.1	25.2	7.3	24.7	24.7	24.7
PAT	**-0.75**	**8.83**	**11.7**	**10.1**	**14.3**	**19.9**
-growth (%)	-114.7	-1,281.2	32.3	-13.8	42.0	39.3

Balance Sheet						
Y/E March	**FY22**	**FY23**	**FY24**	**FY25E**	**FY26E**	**FY27E**
Equity Share Capital	6.0	6.0	6.1	6.1	6.1	6.1
Reserves & Surplus	120.2	129.8	141.9	149.0	158.3	171.2
Net Worth	**126.2**	**135.8**	**148.0**	**155.1**	**164.4**	**177.3**
Deposits	**790.1**	**848.9**	**1,034.9**	**1,190.2**	**1,371.1**	**1,593.2**
-growth (%)	8.0	7.4	21.9	15.0	15.2	16.2
- CASA Dep	**278.8**	**317.2**	**364.5**	**397.5**	**463.4**	**549.7**
-growth (%)	19.8	13.8	14.9	9.1	16.6	18.6
Borrowings	110.9	133.3	141.8	158.5	186.0	221.1
Other Liabilities & Prov.	34.9	40.8	59.6	69.7	82.3	99.5
Total Liabilities	**1,062.1**	**1,158.8**	**1,384.3**	**1,573.5**	**1,803.7**	**2,091.1**
Cash & Balances with RBI	131.1	62.4	120.7	101.2	93.4	105.2
Investments	**222.7**	**288.8**	**295.7**	**349.0**	**408.3**	**477.7**
-growth (%)	-4.1	29.6	2.4	18.0	17.0	17.0
Loans	**600.2**	**702.1**	**839.9**	**953.3**	**1,096.2**	**1,282.6**
-growth (%)	2.4	17.0	19.6	13.5	15.0	17.0
Fixed Assets	5.5	5.7	5.3	5.4	5.7	6.1
Other Assets	58.2	77.0	99.2	124.2	156.4	168.7
Total Assets	**1,062.1**	**1,158.8**	**1,384.3**	**1,573.5**	**1,803.7**	**2,091.1**

Asset Quality						
GNPA (INR m)	27.3	24.2	22.7	32.1	33.7	37.3
NNPA (INR b)	8.1	7.7	6.2	10.1	10.0	10.7
Slippages (INR b)	39.4	27.5	24.4	37.8	35.3	37.3
GNPA Ratio	4.40	3.37	2.7	3.3	3.0	2.8
NNPA Ratio	1.34	1.10	0.7	1.1	0.9	0.8
Slippage Ratio	6.73	4.59	3.5	4.5	3.7	3.4
Credit Cost	4.82	1.57	2.3	2.6	2.1	2.0
PCR (Excl Tech. write off)	70.4	68.1	72.7	68.7	70.2	71.3

E: MOFSL Estimates

Financials and valuations

Ratios

Y/E March	FY22	FY23	FY24	FY25E	FY26E	FY27E
Yield and Cost Ratios (%)						
Avg. Yield-Earning Assets	**8.4**	**9.4**	**10.5**	**10.6**	**10.5**	**10.5**
Avg. Yield on loans	10.6	11.8	12.9	12.8	12.7	12.6
Avg. Yield on Investments	6.0	6.4	7.0	7.0	6.9	6.9
Avg. Cost-Int. Bear. Liab.	**4.8**	**5.0**	**5.9**	**6.2**	**6.3**	**6.2**
Avg. Cost of Deposits	4.7	4.9	5.7	6.1	6.2	6.1
Interest Spread	**3.6**	**4.4**	**4.7**	**4.4**	**4.2**	**4.3**
Net Interest Margin	**4.1**	**4.8**	**5.1**	**4.8**	**4.6**	**4.6**
Capitalization Ratios (%)						
CAR	16.8	16.9	16.2	15.8	14.6	13.6
Tier I	16.2	15.3	14.4	13.9	12.8	11.9
-CET-1	16.2	15.3	14.4	13.9	12.8	11.9
Tier II	0.6	1.6	1.8	2.0	1.8	1.6
Business Ratios (%)						
Loans/Deposit Ratio	76.0	82.7	81.2	80.1	80.0	80.5
CASA Ratio	35.3	37.4	35.2	33.4	33.8	34.5
Cost/Assets	3.4	4.6	4.4	4.2	4.1	4.0
Cost/Total Income	56.9	70.6	66.6	64.9	64.7	62.4
Int. Expense/Int.Income	50.7	48.3	51.2	54.6	56.6	55.9
Fee Income/Net Income	29.5	28.0	29.1	30.4	32.9	33.3
Non Int. Inc./Net Income	36.8	33.2	33.5	35.9	38.6	38.9
Empl. Cost/Total opex	27.7	25.4	24.6	26.7	26.9	27.4
Efficiency Ratios (INRm)						
Employee per branch (in nos)	18.4	21.3	22.9	25.7	28.9	32.6
Staff cost per employee	1.1	1.2	1.2	1.2	1.2	1.1
CASA per branch	555.4	613.5	668.8	694.7	778.7	888.0
Deposits per branch	1,573.8	1,641.9	1,899.0	2,079.8	2,303.8	2,574.1
Business per Employee	150.2	140.6	150.3	145.6	143.3	142.7
Profit per Employee	-0.1	0.8	0.9	0.7	0.8	1.0
Profitability & Valuation Ratios						
RoE	-0.6	6.7	8.2	6.6	9.0	11.7
RoA	-0.1	0.8	0.9	0.7	0.8	1.0
RoRWA	-0.1	1.1	1.3	0.9	1.2	1.4
Book Value (INR)	210	226	245	256	272	293
-growth (%)	-0.6	7.6	8.0	4.8	6.0	7.9
Price-BV (x)	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**	**0.5**
Adjusted BV (INR)	199	215	235	245	260	281
Price-ABV (x)	**0.8**	**0.7**	**0.7**	**0.6**	**0.6**	**0.6**
EPS (INR)	-1.2	14.7	19.3	16.6	23.6	32.9
-growth (%)	-114.7	-1,281.0	31.1	-13.8	42.0	39.3
Price-Earnings (x)	**-124.3**	**10.5**	**8.0**	**9.3**	**6.6**	**4.7**
Dividend Per Share (INR)	0.0	0.0	1.5	4.2	7.1	9.9
Dividend Yield (%)	**0.0**	**0.0**	**1.0**	**2.7**	**4.6**	**6.4**

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

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