Result Update

RBL Bank

Accumulate

BFSI | Q3FY24 Result Update

DART
DOLAT ANALYSIS & RESEARCH THEMES
IN-DEPTH• PRECISE• ACTIONABLE

In line quarter; slightly higher delinquencies

- **RBL reported in-line quarter with NII/PPoP growth of 21%/35% YoY, sequentially stable NIM at 5.5% (-2 bps QoQ), and healthy traction in retail deposits (+4%). The bank made Rs1.15bn of contingent provisions against AIF investments, limiting PAT growth and RoAs (0.75%) during the quarter.**
- **Slippages at 3.5% were slightly higher, though healthy recoveries (including that from WO accounts) limited credit costs to ~170 bps (ex of contingent provisions). Loan growth was led by credit cards, newer secured retail and commercial banking.**
- **We lower earnings for FY24E, factoring impact of AIF provisions. Despite strong execution on growth and healthy PAT CAGR of 26% over FY23-26E, we maintain Accumulate as 1-1.2% RoA seems non-commensurate with the risks given the high share of unsecured portfolio (1/3rd book is MFI/CC).**
- **Maintain Accumulate with unrevised TP of Rs275, valuing bank at 1x Sep-25E ABV against RoA/RoE of 1.1%/10% for FY25E.**

Higher slippages across MFI and CC portfolios

Slippages at 3.5% were higher than expected, though NPA provisions were within guided range, benefitting from recoveries including those from WO accounts. Slippages were led by MFI and CC portfolios, at 6-8% annualized for each. MFI book saw higher delinquencies in some states due to elections. The bank also made Rs1.15bn of contingent provisions against AIF investments as per regulatory requirements, which bears no credit risk as such. We build in credit costs of ~200 bps for FY24E and ~140 bps for FY25-26E.

Growth driven by granular books; weak MFI growth

Sequential growth was driven by retail (+5% QoQ) and commercial banking (+7%). Within retail, MFI growth was muted, impacted by risk perception owing to elections in few states. However, CC book grew at a strong 7% QoQ. Other newer secured retail products including housing, vehicle finance, and retail agri contributed strongly to growth (+20-40% QoQ), off a low base. Growth in business loans was impacted by run-down of a pool of loans, while in housing book, growth benefitted from a portfolio purchase. Loan growth expected to be robust at 20%, with retail driving growth at 25%. We build in loan growth of 18-20% over FY25/26E.

Q3FY24 Result (Rs Mn)

Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Net interest income	15,459	12,770	21.1	14,750	4.8
Other income	7,776	6,184	25.7	7,044	10.4
Total Net Income	23,234	18,954	22.6	21,794	6.6
Operating expenses	15,582	13,282	17.3	14,484	7.6
Pre-provision profits	7,653	5,672	34.9	7,310	4.7
Provisions	4,581	2,927	56.5	6,404	(28.5)
Tax expense	740	655	13.0	(2,035)	(136.4)
Reported Net Profit	2,331	2,090	11.5	2,941	(20.7)
			(bps)		(bps)
Advances Growth YoY (%)	17.6	14.7	295	21.3	(362)
NIM (%)	5.5	5.3	25	5.5	(2)
RoA (%)	0.8	0.8	(3)	1.0	(25)
RoE (%)	6.5	6.3	23	8.4	(190)
Gross NPA (%)	3.1	3.6	(49)	3.1	0

CMP	Rs 265
Target / Upside	Rs 275 / 4%
NIFTY	21,622

Scrip Details

Equity / FV	Rs 5,996mn / Rs 10
Market Cap	Rs 160bn
	USD 1.9bn
52-week High/Low	Rs 301/ 132
Avg. Volume (no)	11,806,100
Bloom Code	RBK IN

Price Performance	1M	3M	12M
Absolute (%)	(7)	8	59
Rel to NIFTY (%)	(8)	(1)	41

Shareholding Pattern

	Jun'23	Sep'23	Dec'23
Promoters	0.0	0.0	0.0
MF/Banks/FIs	18.3	19.5	19.8
FIIs	28.3	30.0	28.3
Public / Others	53.4	50.5	52.0

Valuation (x)

	FY24E	FY25E	FY26E
P/E	13.6	10.2	8.4
P/ABV	1.1	1.0	0.9
ROAA	0.9	1.1	1.1
ROAE	8.3	10.1	10.9

Estimates (Rs bn)

	FY24E	FY25E	FY26E
NII	59.0	68.1	79.1
PPOP	29.3	34.8	41.7
PAT	11.7	15.6	18.8
Adj BV (Rs)	236.6	262.1	291.9

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Risks to our view: Weaker than anticipated macro-economic trends could adversely impact growth and asset quality, lower than expected NIM.

Exhibit 1: Actual v/s estimates

Particulars (Rs mn)	Actual	Estimated	% Variance
NII	15,459	15,632	(1.1)
Operating Profit	7,653	7,670	(0.2)
PAT	2,333	3,330	(29.9)

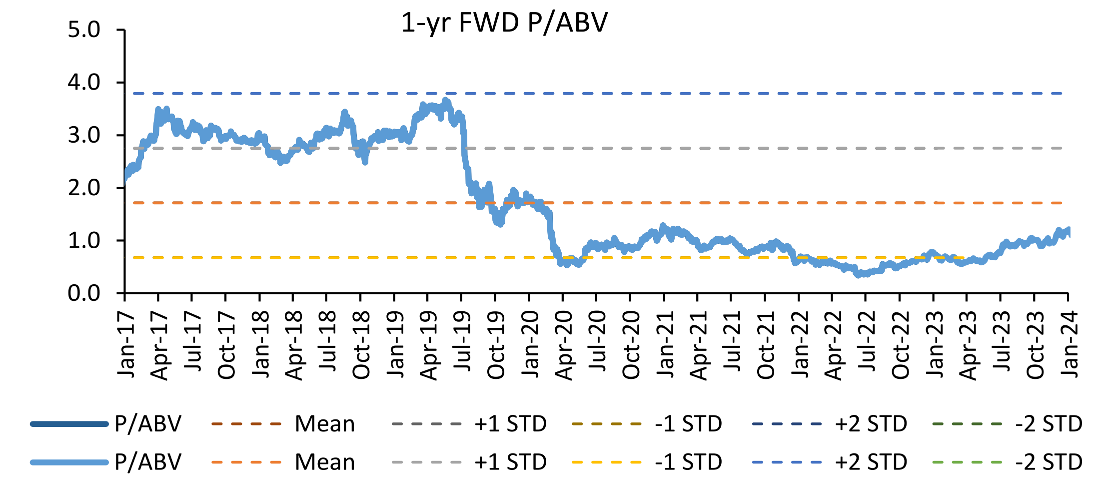
Source: Company, DART

Exhibit 2: Changes in estimates

Particulars (Rs mn)	Previous			Revised			Change %		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Net Op Rev	88,595	103,930	122,430	89,060	104,493	123,110	0.5	0.5	0.6
PPOP	29,382	34,836	41,776	29,337	34,797	41,747	(0.2)	(0.1)	(0.1)
PAT	12,844	15,517	18,706	11,695	15,635	18,841	(8.9)	0.8	0.7

Source: Company, DART

Exhibit 3: The stock currently trades at 1.1x 1-yr forward P/ABV

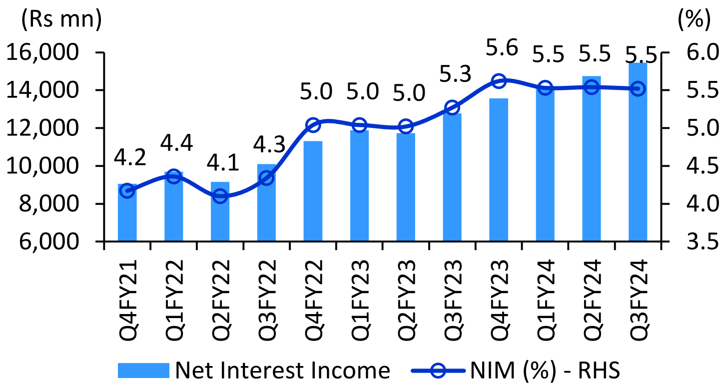


Source: DART, Company

Earnings Call KTAs

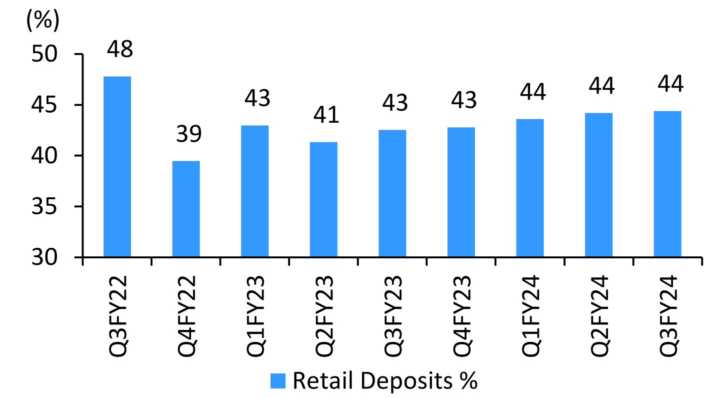
- **Guidance:** Loan book guided to grow by 20% with retail growing at 25% and secured retail growing at 25-30%. Expect to maintain 5-8% QoQ growth in retail book led by newer retail segments. Granular deposit growth to be higher. C/D ratio to remain in range of 85-87%. Retail mix to increase to 60-65% over time. Credit cost guided to be in the range of 1.5-2%. To see strong retail growth in Q4 as well.
- **Business updates:** Significant progress made on business and housing loans originated through branches. Expanding commercial banking operations to west and north India. The segment helps us improve CA balances. Went a little slow on MFI given the risk perception due to elections in few states. Bank has commenced the sourcing of 2W loans, as well as affordable housing loan and MSME. To grow secured retail advances, expanded direct sourcing locations from 68 to 185 locations with 54 hubs. Bank plans to add another 51 locations in the next two quarters.
- **Yields:** A large part of growth is back ended to reflect in yields and NIM next quarter. Q4 NIMs to be stable. Slightly lower NIM QoQ as we saw lower disbursements in some segments.
- **Credit costs-** CC is within guided range, recovery in MFI got impacted in some states due to elections. AIF provisions is completely provided for against exposure of Rs120cr.
- **Credit cards-** Earlier 85% of sourcing was from major partner, which is reduced to 65% now. De-risking the book by reducing reliance on single partner. Reaching out to other co-branded partners as well. Over time, 25-30% to sourcing to gradually come from us, 25% from other partners, and 50% from largest partner. Sale of portfolio to ARC– collection charges were higher than what we were getting upfront. Souring 20k cards thru direct sales per month. ROA would be slightly better with Bajaj customers for internal sourcing, but it is largely range-bound for both. On a per-customer basis, better returns are on Ex-Bajaj portfolio.
- **AIF investment-** invested in venture debt platform where bank invests as partner into new age digital businesses. Window to understand the ecosystem was the intent while investing. The NAV is in the money. Don't expect anything losses here, no impairment expected. To ensure compliance with guidelines, we have made the provisions.
- **MFI-** Went a little slow on MFI given the risk perception due to elections in few states, were prudently focussing on collections. Recovery in MFI got impacted in some states due to elections.
- **Housing/Mortgage:** Bought some housing portfolio this quarter. Should see Rs300-400 cr of disbursals month. Mortgage loans declined as we ran down a pool of loans.
- **Rural vehicle fin-** have 4-5% of market share wherever we are present.
- **Gross slippages:** Break-up: cards- 370, MFI- 100, retail-160, with recoveries, net was much lower in retail. Incremental net slippages coming from cards and MFI. Working on improving recoveries from cards and MFI pools with focussed attention, which should have some positive impact on credit costs. Net slippages were negative for wholesale, 97cr MFI, cards 324 cr, other retail 29cr.
- **Deposits:** continue to focus on granular deposit sourcing.
- **Others:** Capital impact would have been 65 bps led by regulatory changes. However, actual impact was 57 bps due to some capital efficiencies.

Exhibit 4: Stable NIM QoQ



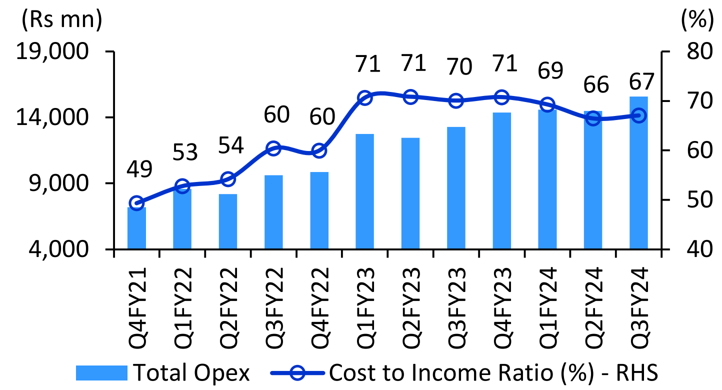
Source: Company, DART

Exhibit 5: Retail liability continues to strengthen



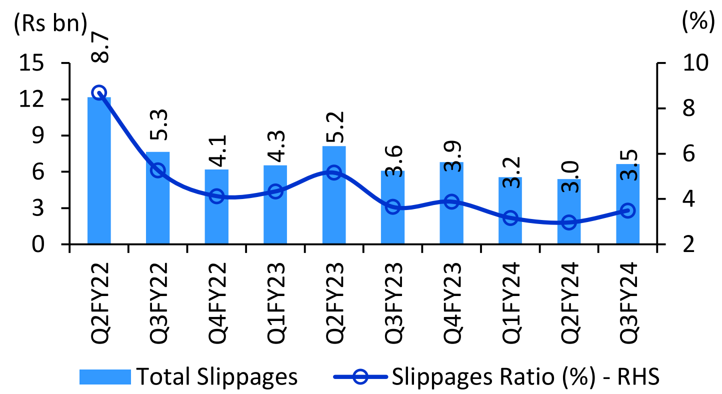
Source: Company, DART

Exhibit 6: Higher opex limits RoA



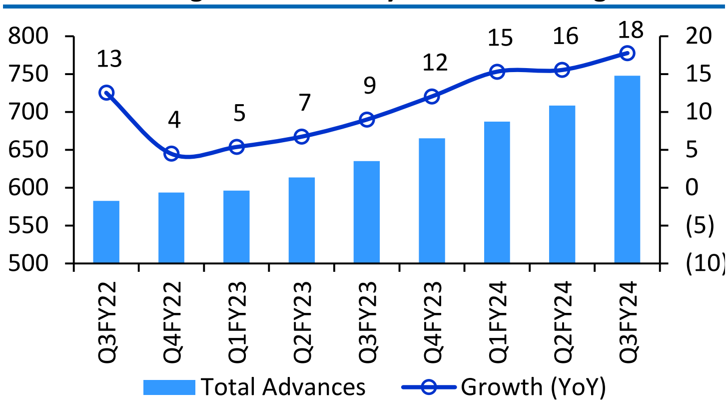
Source: Company, DART

Exhibit 7: High slippages driven by MFI and credit cards



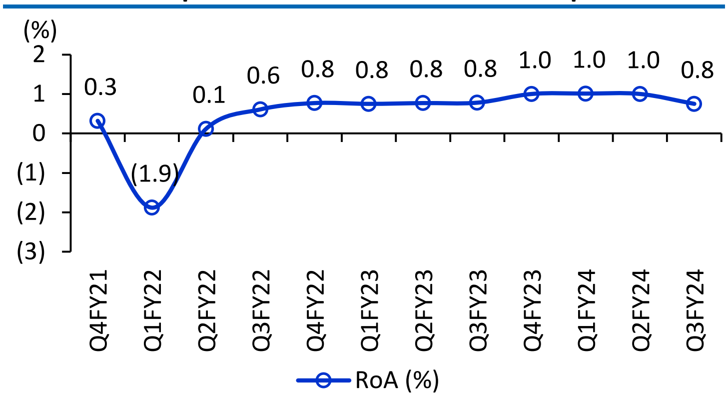
Source: Company, DART

Exhibit 8: Loan growth driven by retail and CB segments



Source: Company, DART

Exhibit 9: RoA profile lower due to one off AIF provision



Source: Company, DART

Quarterly Financials

Profit and Loss (Rs mn)	Q3FY24	Q3FY23	% YoY / bps	Q2FY24	% QoQ / bps	9MFY24	9MFY23	% YoY / bps
Interest Income	**31,914**	**24,975**	**27.8**	**30,080**	**6.1**	**90,550**	**70,334**	**28.7**
Yield on Advances (%)	14.0	12.0	204	13.0	97	13.3	11.5	173
Interest Expenses	**16,455**	**12,205**	**34.8**	**15,330**	**7.3**	**46,122**	**33,934**	**35.9**
Cost of Fund (%)	6.5	5.6	90	6.3	12	6.3	5.2	111
Net Interest Income	**15,459**	**12,770**	**21.1**	**14,750**	**4.8**	**44,428**	**36,400**	**22.1**
NII to Net Operative Income	66.5	67.4	(84)	67.7	(114)	67.2	66.7	49
NIM (%)	5.5	5.3	25	5.5	(2)	5.5	5.1	42
Adjusted NII	**14,956**	**12,503**	**19.6**	**14,321**	**4.4**	**43,111**	**35,736**	**20.6**
Commission, exchange and brokerage	6,853	5,192	32.0	6,102	12.3	18,715	14,760	26.8
Exchange transactions	437	708	(38.2)	678	(35.5)	1,755	1,891	(7.1)
Sale of investments	486	284	70.8	264	83.7	1,204	1,503	(19.9)
Other Income – Total	**7,776**	**6,184**	**25.7**	**7,044**	**10.4**	**21,674**	**18,153**	**19.4**
Other Income to Net Operative Income	33.5	32.6	84	32.3	114	32.8	33.3	(49)
Net Operating Revenue	**23,234**	**18,954**	**22.6**	**21,794**	**6.6**	**66,103**	**54,553**	**21.2**
Employee Expenses	3,989	3,329	19.8	3,747	6.4	11,148	9,830	13.4
Empl. Cost/Oper. Exps.	17.2	17.6	(40)	17.2	(3)	16.9	18.0	(115)
Other Opex	**11,593**	**9,953**	**16.5**	**10,737**	**8.0**	**33,518**	**28,637**	**17.0**
Other Opex/ Assets	1.0	0.9	3	0.9	6	2.8	2.7	10
Total Opex	**15,582**	**13,282**	**17.3**	**14,484**	**7.6**	**44,665**	**38,467**	**16.1**
Cost to Income Ratio (%)	67.1	70.1	(301)	66.5	60	67.6	70.5	(294)
Pre Provision Profits	**7,653**	**5,672**	**34.9**	**7,310**	**4.7**	**21,437**	**16,087**	**33.3**
Provisions & Contingencies – Total	**4,581**	**2,927**	**56.5**	**6,404**	**(28.5)**	**13,647**	**7,872**	**73.3**
NPA Provisions as % Operating Income	59.9	51.6	824	87.6	(2,772)	63.6	48.9	1,472
Profit Before Tax	**3,073**	**2,745**	**12.0**	**909**	**238.2**	**7,804**	**8,226**	**(5.1)**
Tax	740	655	13.0	(2,035)	(136.4)	(362)	2,098	(117.3)
Effective Tax Rate (%)	24.1	23.9	22	(223.9)	24,799.4	(4.6)	25.5	(3,014)
Reported Profits	**2,333**	**2,090**	**11.7**	**2,943**	**(20.7)**	**8,167**	**6,128**	**33.3**
RoA (%)	0.8	0.8	(3)	1.0	(25.0)	0.9	0.8	15
Basic EPS	3.9	3.5	10.9	4.9	(21.0)	13.6	10.2	33.0

Balance Sheet Analysis	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ % / bps	YoY % / bps
Net Worth	130,700	132,950	135,766	138,770	141,218	143,920	1.9	8.3
Tier 1 (%)	15.9	15.5	15.3	15.1	15.2	14.6	(57)	(92)
Total CAR (%)	17.4	17.0	16.9	16.4	16.5	15.7	(82)	(134)
RWA - Total	801,870	833,530	851,380	880,480	894,820	94,640	(89.4)	(88.6)
Advances - Total	**629,417**	**666,840**	**702,094**	**730,870**	**763,242**	**799,490**	**4.7**	**19.9**
Investments	258,132	267,770	288,755	291,710	296,433	278,520	(6.0)	4.0
Total Assets	1,074,017	1,095,540	1,158,762	1,183,530	1,241,444	1,271,460	2.4	16.1
RoA (%)	0.77	0.78	1.00	1.01	1.00	0.75	(25)	(3)
Deposits	**794,045**	**817,460**	**848,865**	**856,360**	**897,804**	**927,460**	**3.3**	**13.5**
CASA Deposits	287,180	299,480	317,170	319,270	320,890	313,380	(2.3)	4.6
CASA Ratio (%)	**36.2**	**36.6**	**37.4**	**37.3**	**35.7**	**33.8**	**(190)**	**(280)**
Term Deposits	506,865	517,980	531,695	537,090	576,914	614,080	6.4	18.6

Movement of NPA (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ % / bps	YoY % / bps
Gross Advances	646,474	683,845	718,059	746,661	782,263	817,644	4.5	19.6
Gross NPA	24,566	24,687	24,199	24,043	24,407	25,511	4.5	3.3
Gross NPA Ratio (%)	3.80	3.61	3.37	3.22	3.12	3.12	-	(49)
PCR - Calculated (%)	67.8	68.0	68.1	69.6	75.6	75.1	(56)	708
Net Advances	627,167	669,424	702,309	729,800	762,179	794,550	4.2	18.7
Net NPA	7,902	7,899	7,725	7,298	5,945	6,356	6.9	(19.5)
Net NPAs Ratio (%)	1.26	1.18	1.10	1.00	0.78	0.80	2	(38)
Reported Profits	2,016	2,090	2,711	2,881	2,941	2,333	(20.7)	11.7
RoA (%)	0.77	0.78	1.00	1.01	1.00	0.75	(25)	(3)

Loan Book Analysis (Rs mn)	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	QoQ % / bps	YoY % / bps
Corporate	231,190	242,140	246,430	247,190	238,880	246,660	3.3	1.9
MFI	45,840	50,210	59,630	65,170	67,850	68,270	0.6	36.0
SME/BB	71,370	74,930	77,880	75,020	83,450	89,120	6.8	18.9
Credit Cards	146,440	124,080	165,940	176,650	149,690	159,640	6.6	28.7
BIL	73,500	68,820	66,560	75,320	83150	74,330	(11)	1.0
HL	34,500	41,420	45,830	45,410	49,410	61,460	24.4	48.4
Advances - Total	629,417	666,840	702,094	730,870	763,242	799,490	4.7	19.9

Financial Performance

Profit and Loss Account (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Interest Income	91,298	116,109	136,693	160,535
Interest expenses	46,784	57,120	68,571	81,416
Net interest income	**44,514**	**58,989**	**68,122**	**79,119**
Other incomes	24,894	30,071	36,371	43,991
Total expenses	47,384	59,723	69,696	81,363
- Employee cost	13,403	15,548	17,569	19,853
- Other	33,981	44,175	52,127	61,510
Pre provisioning profit	**22,024**	**29,337**	**34,797**	**41,747**
Provisions	10,219	16,850	13,894	16,559
Profit before taxes	11,805	12,486	20,902	25,188
Tax provision	2,978	792	5,267	6,347
Profit after tax	8,827	11,695	15,635	18,841
Adjusted profit	**8,827**	**11,695**	**15,635**	**18,841**

Balance Sheet (Rs Mn)

Particulars	FY23A	FY24E	FY25E	FY26E
Sources of Funds				
Equity Capital	5,996	5,996	5,996	5,996
Reserves & Surplus	129,770	141,464	157,099	175,940
Minority Interest	0	0	0	0
Net worth	135,766	147,460	163,095	181,936
Borrowings	133,313	153,749	186,624	218,935
- Deposits	848,865	976,759	1,146,407	1,344,887
- Other interest bearing liabilities	0	0	0	0
Current liabilities & provisions	40,818	49,763	58,155	59,854
Total Liabilities	**1,158,762**	**1,327,731**	**1,554,281**	**1,805,613**
Application of Funds				
Cash and balances with RBI	85,200	91,650	107,441	124,537
Investments	288,755	303,114	332,003	363,716
Advances	702,094	842,512	1,011,015	1,192,997
Fixed assets	5,740	5,783	6,451	7,516
Other current assets, loans and advances	76,974	84,671	97,372	116,846
Total Assets	**1,158,762**	**1,327,731**	**1,554,281**	**1,805,613**

E – Estimates

Important Ratios

Particulars	FY23A	FY24E	FY25E	FY26E
(A) Margins (%)				
Yield on advances	11.0	12.2	12.2	12.2
Yields on interest earning assets	8.8	10.0	10.2	10.3
Yield on investments	5.9	6.4	6.5	6.5
Costs of funds	5.0	5.4	5.6	5.6
Cost of deposits	4.7	4.9	5.4	5.6
NIMs	4.3	5.1	5.1	5.1
(B) Asset quality and capital ratios (%)				
GNPA	3.4	2.6	2.3	2.3
NNPA	1.1	0.7	0.6	0.6
PCR	68.1	75.0	75.0	75.0
Slippages	4.6	3.0	2.8	2.8
NNPA to NW	5.7	3.8	3.6	3.8
CASA	37.7	37.0	37.0	37.0
CAR	16.9	15.3	13.9	13.0
Tier 1	15.3	13.9	12.8	12.0
Credit - Deposit	82.7	86.3	88.2	88.7
(C) Dupont as a percentage of average assets				
Interest income	8.2	9.3	9.5	9.6
Interest expenses	4.2	4.6	4.8	4.8
Net interest income	4.0	4.7	4.7	4.7
Non interest Income	2.2	2.4	2.5	2.6
Total expenses	4.3	4.8	4.8	4.8
- cost to income	68.3	67.1	66.7	66.1
Provisions	0.9	1.4	1.0	1.0
Tax	0.3	0.1	0.4	0.4
RoA	0.8	0.9	1.1	1.1
Leverage	8.5	9.0	9.5	9.9
RoE	6.7	8.3	10.1	10.9
RoRwa	1.0	1.1	1.2	1.2
(D) Measures of Investments				
EPS - adjusted	14.7	19.5	26.1	31.4
BV	226.4	245.9	272.0	303.4
ABV	213.5	236.6	262.1	291.9
DPS	0.0	0.0	0.0	0.0
Dividend payout ratio	0.0	0.0	0.0	0.0
(E) Growth Ratios (%)				
Net interest income	10.5	32.5	15.5	16.1
PPoP	(19.8)	33.2	18.6	20.0
Adj PAT	(1281.1)	32.5	33.7	20.5
Advances	17.0	20.0	20.0	18.0
Total borrowings	20.2	15.3	21.4	17.3
Total assets	9.1	14.6	17.1	16.2
(F) Valuation Ratios				
Market Cap (Rs. mn)	159,511	159,511	159,511	159,511
CMP (Rs.)	265	265	265	265
P/E (x)	18.0	13.6	10.2	8.4
P/BV (x)	1.2	1.1	1.0	0.9
P/ABV (x)	1.2	1.1	1.0	0.9
Div Yield (%)	0.0	0.0	0.0	0.0

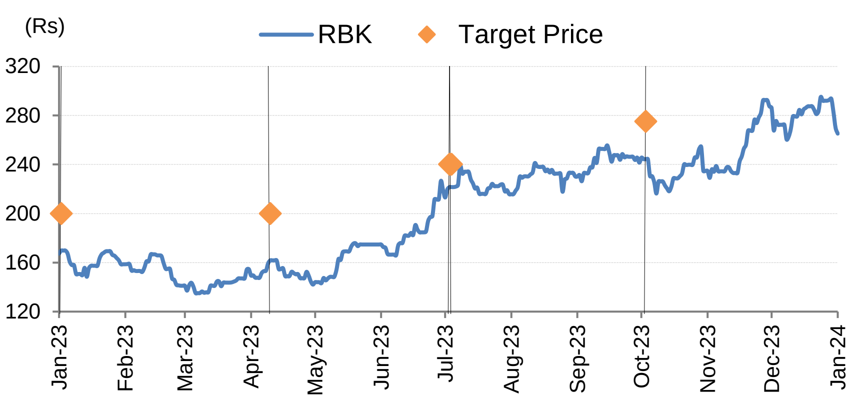
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	**> 20%**
Accumulate	**10 to 20%**
Reduce	**0 to 10%**
Sell	**< 0%**

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jan-23	Accumulate	200	170
Apr-23	Accumulate	200	162
Jul-23	Accumulate	240	222
Jul-23	Accumulate	240	222
Oct-23	Accumulate	275	244

**Price as on recommendation date*

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