HOLD
TP: Rs 233 | ⮝ 7%

RBL BANK | Banking | 13 September 2023

Upside capped; HOLD

- **Expect pickup in retail loans and newer products to aid a 19% credit CAGR over FY23-FY25, with deposit CAGR of 15%**
- **Retail-centric business could support margin gains but sticky operational cost likely to weigh on PPOP**
- **Upsides capped post rally; we assume coverage with HOLD and a TP of Rs 233 (0.9x FY25E ABV)**

Ajit Agrawal
research@bobcaps.in

Targeting growth via retail thrust, new products: RBK delivered an ostensibly strong Q1FY24 performance, but this came off a low base. While credit grew 21% YoY driven by the retail book, sticky operational and credit costs continued to weigh on profitability. Management is targeting a 20%+ credit CAGR over FY23-FY26, primarily from the credit card, microfinance and commercial loan segments, with support from its new home, gold and vehicle finance forays. Baking in competitive pressures, we model for a 19% credit CAGR through to FY25, along with a 15% deposit CAGR (after a muted 8% YoY print in Q1FY24 and 7.4% in FY23).

NIM to improve, C/I to remain high: NIM contracted 5bps QoQ in the first quarter to 4.6% on account of high-cost deposits, but management has guided for stronger 5% levels in FY24 and FY25. We expect a focus on the granular retail business to support margins, but are below guidance at ~4.7% in each of these years assuming a higher cost of funds. C/I ratio is likely to remain elevated during FY24 (66% in Q1), in line with management guidance. We model for a 19% NII CAGR through to FY25 with C/I holding at ~65% as the bank continues to pursue retail growth.

Asset quality steady: Asset quality has improved over the years but remains weaker than peers, with GNPA/NNPA at 3.2%/1% in Q1FY24. The restructured book stood at 1% of loans. Considering increased stress from the retail business, management has guided for credit cost of 1.5% over FY24-FY25, which is at the high end of the peer set. We conservatively factor in a 1.6% print.

HOLD, TP Rs 233: Baking in sticky operational costs, we forecast a PPOP CAGR of 24% over FY23-FY25, mainly benefiting from a low base, and believe provisioning would be a drag on net profit. The stock is trading at 0.8x FY25E ABV, having rallied 40% over the past three months. Accounting for RBK's growth and profitability matrix, wherein we estimate muted ROA/ROE of 1%/9% each for FY24/FY25, upsides look capped at current valuations. We thus assume coverage with a HOLD rating and value the stock at 0.9x FY25E ABV for a TP of Rs 233, based on the Gordon Growth Model.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RBK IN/Rs 218
Market cap	US$ 1.6bn
Free float	100%
3M ADV	US$ 38.5mn
52wk high/low	Rs 251/Rs 108
Promoter/FPI/DII	0%/28%/18%

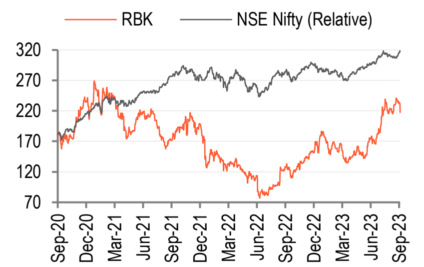
Source: NSE | Price as of 12 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	44,515	54,957	63,111
NII growth (%)	10.5	23.5	14.8
Adj. net profit (Rs mn)	8,827	12,038	14,076
EPS (Rs)	14.7	20.1	23.5
Consensus EPS (Rs)	14.7	20.1	25.5
P/E (x)	14.8	10.8	9.3
P/BV (x)	1.0	0.9	0.8
ROA (%)	0.8	1.0	1.0
ROE (%)	6.7	8.5	9.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Fig 1 – Loan book trend

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
C&IB	184,640	193,970	209,010	221,500	231,110	231,190	242,140	246,430	247,190	7.0	0.3
CB	59,920	58,280	63,400	65,430	66,450	71,370	74,930	77,880	75,020	12.9	(3.7)
Wholesale	**244,560**	**252,250**	**272,410**	**286,930**	**297,560**	**302,560**	**317,070**	**324,310**	**322,210**	**8.3**	**(0.6)**
Business Loan	101,030	93,330	86,760	80,580	75,470	73,500	68,820	66,560	75,320	(0.2)	13.2
Credit Card	120,390	124,820	131,890	133,830	140,360	146,440	154,710	165,940	176,650	25.9	6.5
MFI	58,810	49,590	48,270	48,520	37,530	45,840	50,210	59,630	65,170	73.6	9.3
Housing Loan	15,500	15,480	16,510	24,630	25,630	34,500	42,980	45,830	45,410	77.2	(0.9)
Retail Agri	11,600	11,370	13,600	11,890	12,010	12,130	12,600	13,570	13,510	12.5	(0.4)
Rural Vehicle Finance	-	940	-	3,140	4,230	5,400	7,770	10,290	12,420	193.6	20.7
Others	13,380	12,310	11,970	10,700	9,900	9,050	12,690	15,970	20,170	103.7	26.3
Retail	**320,710**	**307,840**	**309,000**	**313,290**	**305,130**	**326,860**	**349,780**	**377,790**	**408,650**	**33.9**	**8.2**
Total Loans	**565,270**	**560,090**	**581,410**	**600,220**	**602,690**	**629,420**	**666,850**	**702,100**	**730,860**	**21.3**	**4.1**

Source: Company, BOBCAPS Research

Fig 2 – Loan book distribution

Segment (%)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	YoY (%)	QoQ (%)
C&IB	32.7	34.6	35.9	36.9	38.3	36.7	36.3	35.1	33.8	(452bps)	(128bps)
CB	10.6	10.4	10.9	10.9	11.0	11.3	11.2	11.1	10.3	(76bps)	(83bps)
Wholesale	**43.3**	**45.0**	**46.9**	**47.8**	**49.4**	**48.1**	**47.5**	**46.2**	**44.1**	**(529bps)**	**(211bps)**
Business Loan	17.9	16.7	14.9	13.4	12.5	11.7	10.3	9.5	10.3	(222bps)	83bps
Credit Card	21.3	22.3	22.7	22.3	23.3	23.3	23.2	23.6	24.2	88bps	54bps
MFI	10.4	8.9	8.3	8.1	6.2	7.3	7.5	8.5	8.9	269bps	42bps
Housing Loan	2.7	2.8	2.8	4.1	4.3	5.5	6.4	6.5	6.2	196bps	(31bps)
Retail Agri	2.1	2.0	2.3	2.0	2.0	1.9	1.9	1.9	1.8	(14bps)	(8bps)
Rural Vehicle Finance	0.0	0.2	0.0	0.5	0.7	0.9	1.2	1.5	1.7	100bps	23bps
Others	2.4	2.2	2.1	1.8	1.6	1.4	1.9	2.3	2.8	112bps	49bps
Retail	**56.7**	**55.0**	**53.1**	**52.2**	**50.6**	**51.9**	**52.5**	**53.8**	**55.9**	**529bps**	**211bps**

Source: Company, BOBCAPS Research

Fig 3 – GNPA

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Wholesale	10,700	10,850	10,100	10,440	10,870	11,830	11,720	11,510	11,050
Business Loans	4,720	3,630	3,530	3,780	3,770	4,260	4,730	4,690	4,410
Credit Cards	5,200	5,740	3,880	3,250	3,280	3,480	3,450	3,470	4,220
Microfinance	5,840	8,390	8,950	7,370	5,170	2,740	2,230	2,050	1,620
Retail Agri	1,400	1,570	1,580	1,470	1,630	1,630	1,760	1,730	1,980
Others	1,240	1,140	980	970	640	630	800	750	770
Total	29,100	31,320	29,020	27,280	25,360	24,570	24,690	24,200	24,050

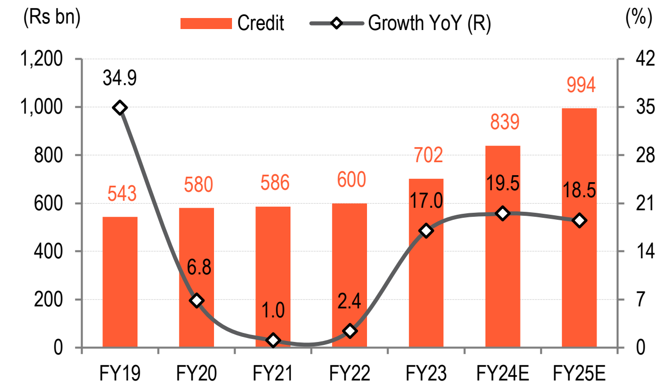
Source: Company, BOBCAPS Research

Fig 4 – NNPA

(Rs mn)	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24
Wholesale	5,090	4,510	3,700	2,900	2,990	3,620	3,220	3,080	2,730
Business Loans	2,590	2,070	1,970	1,920	1,580	1,470	1,650	1,910	1,800
Credit Cards	1,280	2,390	1,500	1,040	830	840	820	890	1,110
Microfinance	980	1,620	2,250	890	650	1,020	1,120	860	610
Retail Agri	940	950	930	860	760	730	800	720	810
Others	500	470	400	440	160	220	300	270	230
Total	11,380	12,010	10,750	8,050	6,970	7,900	7,910	7,730	7,290

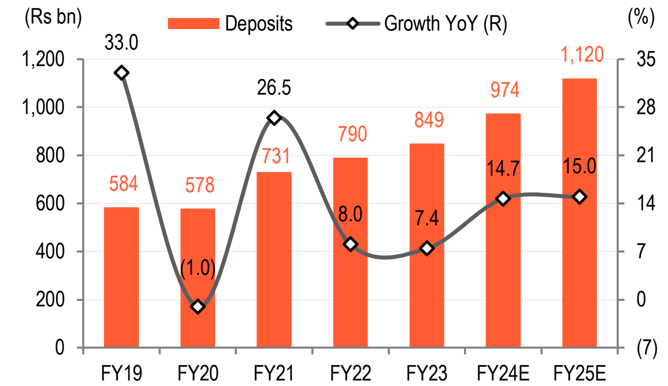
Source: Company, BOBCAPS Research

Fig 5 – Expect 19% credit CAGR for FY23-FY25E…



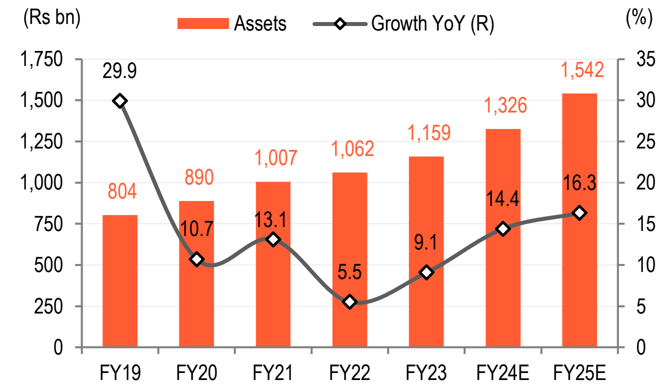
Source: Company, BOBCAPS Research

Fig 6 – …and 15% deposit CAGR



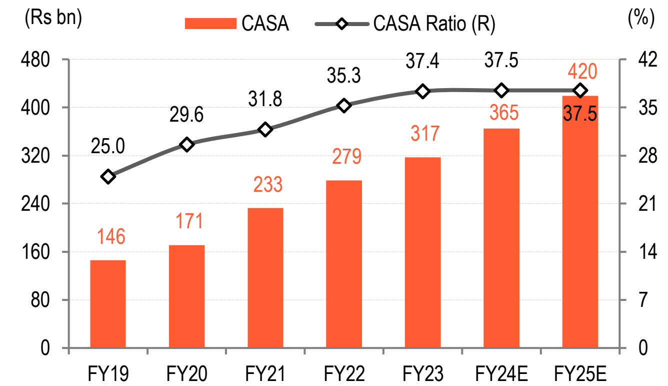
Source: Company, BOBCAPS Research

Fig 7 – Healthy asset growth



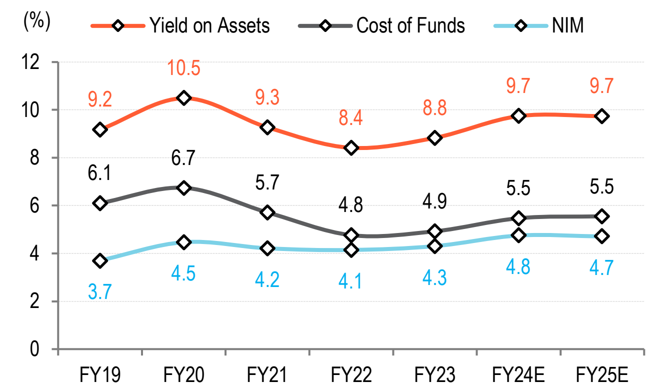
Source: Company, BOBCAPS Research

Fig 8 – CASA ratio to hold at 37% levels



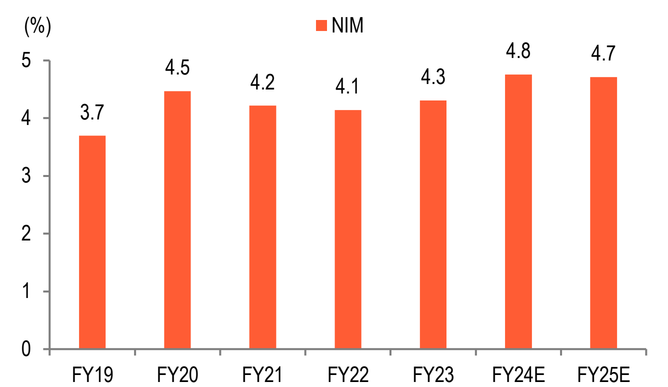
Source: Company, BOBCAPS Research

Fig 9 – Cost of funds on the rise



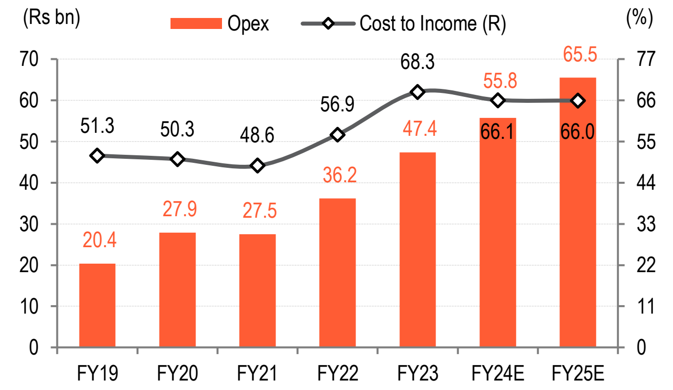
Source: Company, BOBCAPS Research

Fig 10 – Focus on granular retail business to support NIM



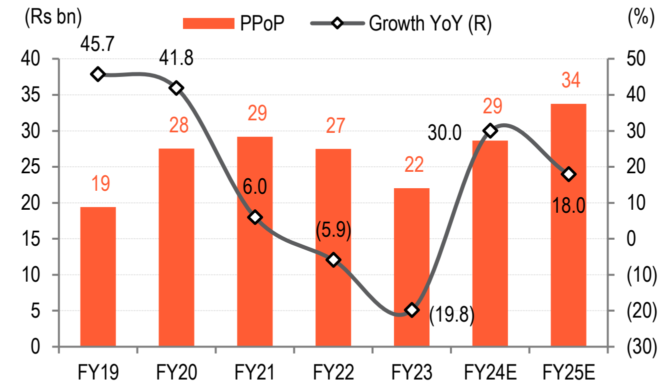
Source: Company, BOBCAPS Research

Fig 11 – Higher employee cost to raise opex



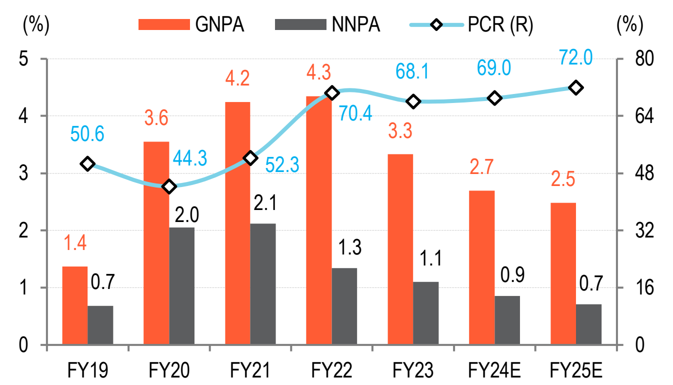
Source: Company, BOBCAPS Research

Fig 12 – PPOP growth to come off a low base



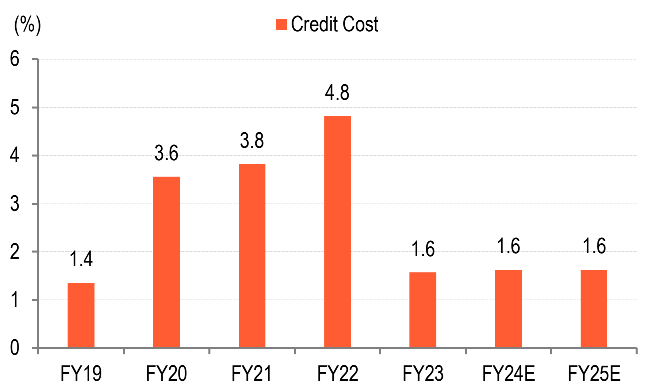
Source: Company, BOBCAPS Research

Fig 13 – Asset quality improving



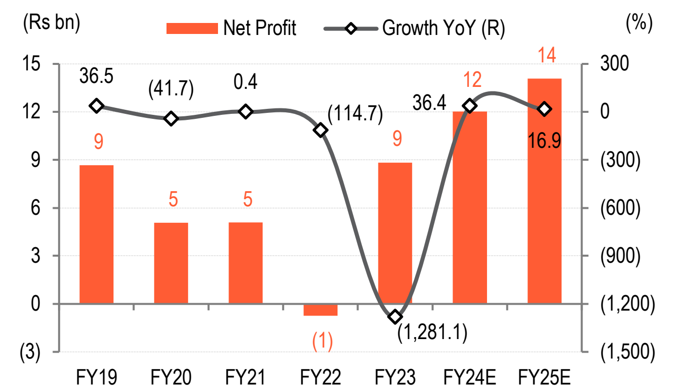
Source: Company, BOBCAPS Research

Fig 14 – Expect credit cost of 1.6% vs. 1.5% guided



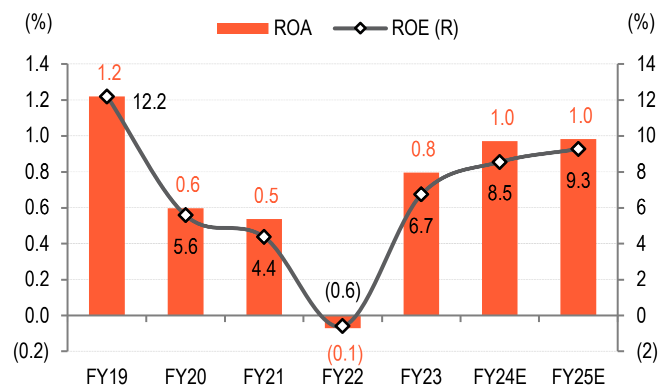
Source: Company, BOBCAPS Research

Fig 15 – Expect a 27% PAT CAGR



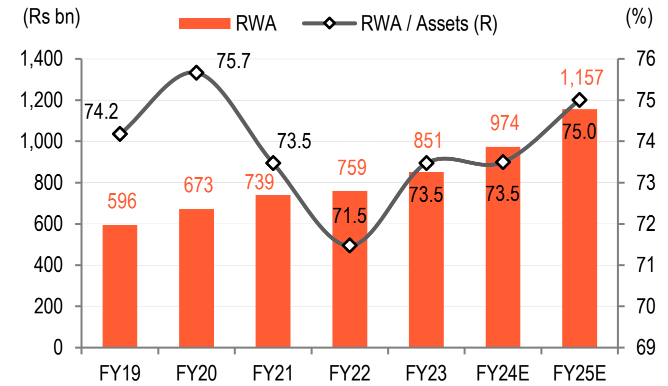
Source: Company, BOBCAPS Research

Fig 16 – Return ratios improving but weak



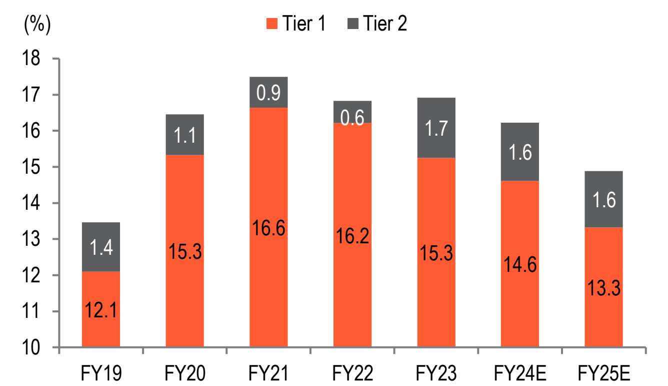
Source: Company, BOBCAPS Research

Fig 17 – Stable RWA to asset aid CAR



Source: Company, BOBCAPS Research

Fig 18 – Well capitalised to fund credit demand



Source: Company, BOBCAPS Research

Valuation methodology

Key forecasts

RBK, in its recent earnings commentary, was confident of accelerating credit growth from the retail division (credit card, microfinance and commercial loans), new home, gold and vehicle products, and via increased client acquisition through the business channel. Management accordingly guided for a 20%+ credit CAGR over FY23-FY26. However, factoring in competitive intensity and a likely moderation in industry credit offtake, we pencil in a 19% CAGR over FY23-FY25. On the liability side, we expect upward deposit repricing to aid a deposit CAGR of 15%.

Management has also guided for expansion in NIM from 4.3% in FY23 to 5% for the next two years as the bank leverages volume growth. Though we expect a focus on the granular retail business – in particular, high-yield credit cards, MFI and vehicle finance – to support margins, we are below guidance at ~4.7% for FY24 and FY25 to account for a higher cost of funds and potentially lower CASA deposits.

On the NII front, we bake in a 19% CAGR over FY23-FY25 and also expect non-interest income to fare well (15% CAGR vs. 9% over FY19-FY23), fuelled by increased fee income from the retail business. The C/I ratio was elevated at 66% in Q1FY24 and RBK expects a retail loan focus to keep employee and technology expenses high in FY24, while guiding for substantial improvement in FY25 as volumes improve. We conservatively factor in a 65% C/I ratio for both years considering the bank's aggressive approach towards retail lending and emphasis on granularity. Baking in sticky operational costs, PPOP is forecast to log a 24% CAGR over FY23-FY25, mainly benefiting from a low base

RBK's asset quality has improved as slippages were under control over the last 4-5 quarters, but its GNPA/NNPA ratios of 3.2%/1% are still above those of peers. Credit cost was elevated at 150bps in Q1FY24 with guidance for similar levels in FY24 and FY25. We factor in a slightly higher 160bps for both years assuming higher risk from the unsecured retail book. Even so, GNPA/NNPA/PCR are forecast to improve to 2.5%/0.7%/72% in FY25. The bank is well capitalised with CAR of 16.7% (tier-1 at 15.1%) as of Jun'23, and we estimate healthy levels of 16.2%/15% in FY24/FY25.

We expect a PAT CAGR of 27% for RBK, but this will be a function of a low base as operational and credit costs are likely to remain a drag. ROA is projected to stagnate at 1% over FY24-FY25 as against management guidance of 10bps improvement each year, and we model for ROE of under 10% for both years.

HOLD, TP Rs 233

Although RBK has witnessed notable improvement in asset quality, GNPA/NNPA remain higher than peers and we expect operational and credit cost to stay elevated. The stock is trading at 0.8x FY25E P/ABV, having rallied 40% over the past three months. In our view, the rally factors in the improvement in profitability seen over the last 3-4 quarters and leaves little upside potential, leading us to assume coverage with a HOLD rating. Our TP of Rs 233 is set a 0.9x FY25E ABV using the Gordon Growth Model.

Fig 19 – Key operational assumptions

Parameter (%)	FY22	FY23	FY24E	FY25E
Advances	2.4	17.0	19.5	18.5
Net Interest Income	6.3	10.5	23.5	14.8
PPOP	(5.9)	(19.8)	30.0	18.0
PAT	(114.7)	(1,281.1)	36.4	16.9
NIM	4.1	4.3	4.8	4.7
GNPA	4.3	3.3	2.7	2.5
CAR	16.8	16.9	16.2	14.9

Source: Company, BOBCAPS Research

Fig 20 – Key valuation assumptions: Gordon growth model

Particulars	
Cost of equity (%)	12.5
Blended ROE (%)	11.7
Initial high growth period (yrs)	10
Payout ratio of high-growth phase (%)	20.0
Long-term growth (%)	5.0
Long term dividend payout ratio (%)	60.0
Justified P/BV Multiple (x)	0.9

Source: Company, BOBCAPS Research

Key risks

- Margin expansion with an increase in high yielding assets is a key upside risk to our estimates.
- Inability of the bank to manage a higher cost of funds with faster deposit repricing would represent a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US$ bn)	Price (Rs)	Target (Rs)	Rating
Axis Bank	AXSB IN	37.5	1,001	1,155	BUY
Federal Bank	FB IN	3.7	143	165	BUY
HDFC Bank	HDFCB IN	150.2	1,637	2,061	BUY
ICICI Bank	ICICIBC IN	84.2	991	1,015	HOLD
Indusind Bank	IIB IN	13.5	1,429	1,755	BUY
Kotak Mahindra Bank	KMB IN	43.8	1,811	2,122	HOLD
RBL Bank	RBK IN	1.6	218	233	HOLD
State Bank of India	SBIN IN	63.9	588	729	BUY

Source: BOBCAPS Research, NSE | Price as of 12 Sep 2023

Glossary

Glossary of Abbreviations			
AUCA	Advance Under Collection Account	**LCR**	Liquidity Coverage Ratio
ARC	Asset Reconstruction Company	**MCLR**	Marginal Cost of Funds-based Lending Rate
BRDS	Bills Rediscounting Scheme	**MFI**	Microfinance Institution
CASA	Current Account and Savings Account	**MTM**	Mark to Market
CAR	Capital Adequacy Ratio	**NII**	Net Interest Income
CET1	Common Equity Tier 1	**NIM**	Net Interest Margin
CD	Credit-Deposit Ratio	**NNPA**	Net Non-Performing Assets
C/I	Cost-Income Ratio	**PCR**	Provision Coverage Ratio
CRB	Commercial and Rural Banking	**PPOP**	Pre-Provision Operating Profit
EBLR	External Benchmark-based Lending Rate	**PSU**	Public Sector Unit
ECL	Expected Credit Loss	**RWA**	Risk-weighted Assets
GNPA	Gross Non-Performing Assets	**SLR**	Statutory Liquidity Ratio
IBPC	Interbank Participation Certificate	**SMA**	Special Mention Account
LAP	Loans against Property	**SME**	Small and Medium-sized Enterprises

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	**37,876**	**40,267**	**44,515**	**54,957**	**63,111**
NII growth (%)	4.4	6.3	10.5	23.5	14.8
Non-interest income	18,840	23,405	24,894	29,440	36,133
Total income	56,716	63,673	69,409	84,397	99,244
Operating expenses	27,546	36,220	47,384	55,769	65,475
PPOP	29,170	27,453	22,025	28,628	33,769
PPOP growth (%)	6.0	(5.9)	(19.8)	30.0	18.0
Provisions	22,279	28,604	10,220	12,483	14,849
PBT	6,891	(1,151)	11,805	16,145	18,920
Tax	1,813	(404)	2,978	4,107	4,843
Reported net profit	**5,078**	**(747)**	**8,827**	**12,038**	**14,076**
Adjustments	0	0	0	0	0
Adjusted net profit	**5,078**	**(747)**	**8,827**	**12,038**	**14,076**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY21A	FY22A	FY23A	FY24E	FY25E
Equity capital	5,980	5,995	5,996	5,996	5,996
Reserves & surplus	120,646	120,187	129,770	140,002	151,967
Net worth	126,626	126,182	135,766	145,998	157,963
Deposits	731,213	790,065	848,865	973,648	1,119,696
Borrowings	112,259	110,930	133,313	153,843	177,535
Other liab. & provisions	36,409	34,908	40,818	52,122	86,896
Total liab. & equities	**1,006,506**	**1,062,086**	**1,158,762**	**1,325,611**	**1,542,089**
Cash & bank balance	134,242	175,477	85,200	90,214	103,621
Investments	232,304	222,744	288,755	313,286	345,523
Advances	586,225	600,218	702,094	839,002	994,217
Fixed & Other assets	53,735	63,647	82,714	83,109	98,729
Total assets	**1,006,506**	**1,062,086**	**1,158,762**	**1,325,611**	**1,542,089**
Deposit growth (%)	26.5	8.0	7.4	14.7	15.0
Advances growth (%)	1.0	2.4	17.0	19.5	18.5

Per Share

Y/E 31 Mar (Rs)	FY21A	FY22A	FY23A	FY24E	FY25E
EPS	9.2	(1.2)	14.7	20.1	23.5
Dividend per share	0.0	0.0	14.0	3.0	3.5
Book value per share	211.7	210.5	226.4	243.5	263.5

Valuations Ratios

Y/E 31 Mar (x)	FY21A	FY22A	FY23A	FY24E	FY25E
P/E	23.7	(174.5)	14.8	10.8	9.3
P/BV	1.0	1.0	1.0	0.9	0.8
Dividend yield (%)	0.0	0.0	6.4	1.4	1.6

DuPont Analysis

Y/E 31 Mar (%)	FY21A	FY22A	FY23A	FY24E	FY25E
Net interest income	4.0	3.9	4.0	4.4	4.4
Non-interest income	2.0	2.3	2.2	2.4	2.5
Operating expenses	2.9	3.5	4.3	4.5	4.6
Pre-provisioning profit	3.1	2.7	2.0	2.3	2.4
Provisions	2.3	2.8	0.9	1.0	1.0
PBT	0.7	(0.1)	1.1	1.3	1.3
Tax	0.2	0.0	0.3	0.3	0.3
ROA	0.5	(0.1)	0.8	1.0	1.0
Leverage (x)	8.2	8.2	8.5	8.8	9.4
ROE	4.4	(0.6)	6.7	8.5	9.3

Ratio Analysis

Y/E 31 Mar	FY21A	FY22A	FY23A	FY24E	FY25E
YoY growth (%)					
Net interest income	4.4	6.3	10.5	23.5	14.8
Pre-provisioning profit	6.0	(5.9)	(19.8)	30.0	18.0
EPS	(15.1)	(113.6)	(1279.6)	36.4	16.9
Profitability & Return ratios (%)					
Net interest margin	4.1	4.1	4.2	4.7	4.6
Fees / Avg. assets	0.4	0.5	0.5	0.5	0.5
Cost-Income	48.6	56.9	68.3	66.1	66.0
ROE	4.4	(0.6)	6.7	8.5	9.3
ROA	0.5	(0.1)	0.8	1.0	1.0
Asset quality (%)					
GNPA	4.2	4.3	3.3	2.7	2.5
NNPA	2.1	1.3	1.1	0.9	0.7
Slippage ratio	5.4	6.7	4.6	3.6	3.7
Credit cost	0.0	0.0	0.0	0.0	0.0
Provision coverage	50.2	69.1	67.0	68.1	71.3
Ratios (%)					
Credit-Deposit	80.2	76.0	82.7	86.2	88.8
Investment-Deposit	31.8	28.2	34.0	32.2	30.9
CAR	17.5	16.8	16.9	16.2	14.9
Tier-1	16.6	16.2	15.3	14.6	13.3

Source: Company, BOBCAPS Research

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Name of the Research Entity: **BOB Capital Markets Limited**
Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
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BUY – Expected return >+15%
HOLD – Expected return from -6% to +15%
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Note: Recommendation structure changed with effect from 21 June 2021

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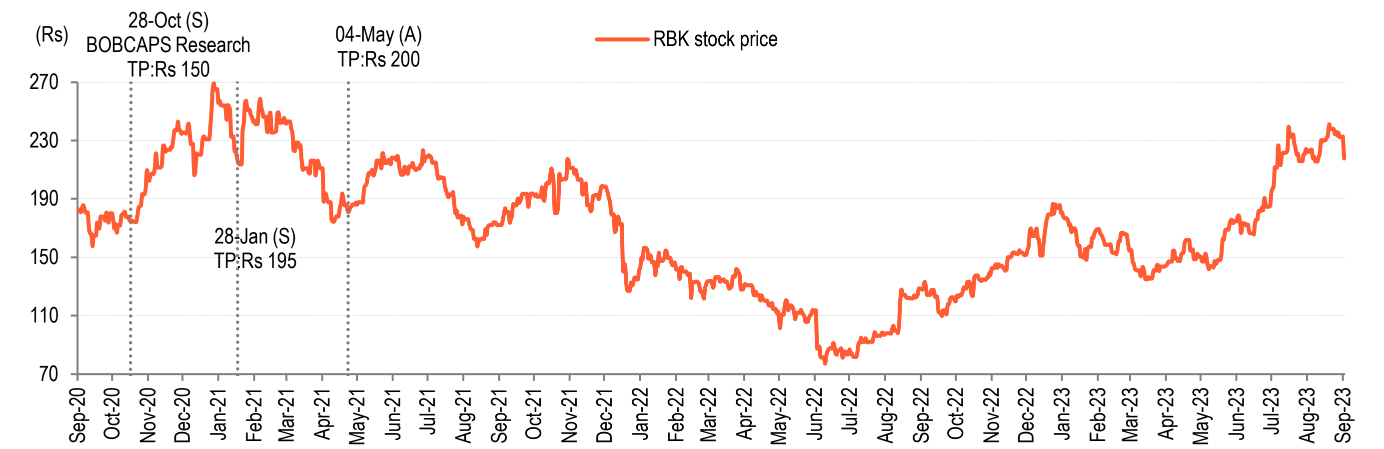
Ratings and Target Price (3-year history): RBL BANK (RBK IN)



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