RBL Bank Ltd — Jan 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss **One-line:** Management has effectively "kitchen-sinked" the quarter, using □294 Cr of one-off gains (stake sale + tax write-back) to front-load provisions against the deteriorating JLG (MFI) book, resulting in a near-breakeven PAT and a delayed recovery thesis.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	PAT of □33 Cr is a 91% YoY/QoQ drop; NIM compressed 14bps QoQ to 4.90%.	□
Earnings Quality	Low (One-off driven)	Core PAT would have been a loss without □144 Cr investment gain and □150 Cr tax reversal.	□
Guidance Confidence	Weak	Management withdrew FY26 RoA/RoE guidance, deferring it to next quarter.	□
Management Credibility	Neutral	High transparency on MFI stress, but the reliance on one-offs to "clean up" masks the true P&L impact.	□
Business Quality Signal	Deteriorating	Core profitability (RoA 0.09%) is currently decimated by unsecured credit cycles.	□
Key Q&A Exchange	Q2 + JLG Recovery	Mgmt claims Dec collection efficiency (98.4%) signals a Q1 FY26 turnaround.	□
The Street's Primary Anxiety	Contagion to Q4	Fear that JLG slippages will remain elevated in Q4 (Mgmt confirmed they will).	□
Capital Cycle Stage	Consolidation	RWA risk weights for JLG raised to 125%; focusing on capital preservation (CET1 13.7%).	□
Margin / Return Trajectory	Deteriorating	NIM at 4.90% (vs 5.5% historical) and RoA at 0.09% mark a multi-year low.	□
Pricing Power	Eroding	Yields on advances fell to 13.3% due to □134 Cr in interest reversals.	□
FCF Conversion & Quality	N/A (Bank)	Deposit growth (15%) is outpacing advances (13%), but slippages are high.	□
Competitive Moat Signals	Stable	Granular deposits (<□3 Cr) reached 50.3%, a structural positive for the franchise.	□
Balance Sheet Strength	Adequate	PCR improved to 82.2% following the front-loaded provisions.	□
Working Capital Efficiency	Stressed	Slippage ratio spiked; interest reversals of □134 Cr dragged NII.	□
Mgmt Guidance Track Record	Unreliable	Prior expectations of "transition friction" have evolved into deep structural stress.	□
Key Vulnerability	Unsecured Overhang	JLG and Credit Cards together account for ~99% of total bank slippages (□1,103 Cr).	□
Management Tone	Cautious / Defensive	Focused on "cleaning the slate" and carrying "negligible baggage" into FY26.	□

Sentiment: □Negative

Key Takeaways (Positives & Negatives): * **Positives:** * **Balance Sheet Cleanup:** Front-loading JLG provisions (85% coverage on NPAs) using one-offs creates a cleaner starting point for FY26. * **Deposit Granularity:** Achieved the 50% target for deposits <₹3 Cr (actual 50.3%), significantly improving the liability profile. * **Secured Momentum:** Secured retail (Housing/Business Loans) continues to grow at 30%+ YoY, providing long-term stabilization. * **Negatives:** * **Core Earnings Decimation:** If we strip out the ₹144 Cr stake sale and ₹150 Cr tax reversal, the bank would have reported a significant pre-tax loss. * **NIM Collapse:** NIM at 4.90% is severely impacted by interest reversals (₹134 Cr) on new NPAs in MFI and Cards. * **MFI Stress Duration:** Management admitted Q4 slippages will likely be as high as Q3, meaning the "peak stress" is a plateau, not a spike. * **Street Concern:** Analysts are highly skeptical about the "clean slate" narrative for FY26, given the ongoing over-leverage in the MFI industry and the potential for the new MFIN guardrails (effective April 1) to further depress collections. * **Watchpoint:** Watch the usage of the remaining ₹273 Cr contingency provision in Q4; if this is fully exhausted without a sharp drop in slippages by Q1 FY26, the equity story will face a structural de-rating.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q3FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	3%	↓	↓	↓	Impacted by □134 Cr interest reversals and lower MFI disbursals.
NIM (AUM basis %)	4.90%	↓ 62bps	↓ 14bps	↓	Significant compression; reversals were the primary drag.
Cost of Funds %	6.63%	↑ 13bps	↑ 6bps	↓	Sequential rise despite easing macro environment.
Cost of Deposits %	6.57%	↑ 27bps	↑ 4bps	↓	Rising marginally due to competitive deposit pricing.
CASA Ratio (period end %)	32.8%	↓ 100bps	↓ 80bps	↓	Sequential de-growth in balances (-3% QoQ).
CASA Ratio (avg %)	29.5%	↓ 120bps	↑ 60bps	↑	Improved on average basis (+14% YoY growth in balances).
Credit-Deposit Ratio %	84.7%	↓ 150bps	↑ 330bps	↓	Advances grew 3% QoQ while deposits fell 1% QoQ.
Loans Growth (% YoY)	13%	↓	↓	↓	Slowdown driven by de-growth in JLG (-4%) and flattish Cards.
Deposits Growth (% YoY)	15%	↓	↓	↓	Led by Granular deposits (+20% YoY); Bulk deposits de-grown.
GNPA %	2.92%	↓ 20bps	↑ 4bps	↓	Sequentially rising; JLG slippages the main culprit.
NNPA %	0.53%	↓ 27bps	↓ 26bps	↑	Artificial improvement due to □414 Cr extra provision.
Slippage Ratio (%)	1.21%	↑ 33bps	↑ 2bps	↓	**Not annualized.** Total slippages □1,110 Cr.
Credit Cost (bps)	139bps	↑ 49bps	↑ 59bps	↓	**Not annualized.** Includes front-loaded JLG provision.
Collection Efficiency %	98.4%	↓	↑	↑	JLG Dec numbers improved from 97.5% in Sept.
Capital Adequacy (CET1 %)	13.7%	↓ 90bps	↓ 50bps	↓	Impacted by higher risk weights (75% to 125% for JLG).
PAT (□Cr)	□33 Cr	↓ 86%	↓ 85%	↓	Massive earnings hit; bottom line supported by one-offs.
Fee Income Growth %	19%	↓	↑	↑	Core fee growth remains a resilient driver.

2B. SEGMENT BREAKDOWN

Segment	Advances (□Cr)	YoY Growth	Yield (Q3)	Trend	vs Co Avg	Key Development
Wholesale	□35,213	5%	9.3%	→	Lower	Commercial Banking (Mid-Corp/SME) up 21% YoY.
Credit Cards	□17,288	8%	17.5%*	↓	Higher	Sequential contraction (-1%); slippages trending down.
JLG (MFI)	□6,532	-4%	17.5%*	↓	Higher	Aggressive de-growth; focus on recoveries over new loans.
Housing Loans	□7,885	33%	9.4%	↑	Lower	Strong secured growth; now 14% of retail mix.
Business Loans	□9,859	30%	17.3%	→	Higher	Yields stable; high-growth secured focus area.
Rural Vehicle Fin	□2,599	30%	17.3%	→	Higher	High-yield secured segment scaling well.
**Yields for Cards and MFI are blended into "Unsecured Retail" yields; impacted by reversals.*						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	RoA / RoE	Withheld for FY26 (previously 1.4-1.5% RoA).	Needs 1.9%+ RoA in FY26 to recover. Mathematically improbable.	Missed	High
Guidance	Slippages (Q4)	Expected to be broadly similar to Q3 for JLG.	Needs ~□500 Cr JLG slippage run-rate to stabilize.	On Watch	Moderate
Guidance	Slippages (FY26)	Turnaround from Q1 FY26 onwards.	Dependent on Dec CE (98.4%) sustaining through Jan/Feb.	Delayed	High
Strategy	JLG Cleanup	85% Provision Coverage (PCR).	Achieved via one-offs; PCR now at 82.2% bank-wide.	Delivered	Low
Strategy	Asset Mix	Pivot to Secured Retail (38% YoY growth).	Secured retail must reach 30%+ of total book to offset unsecured.	On Track	Low
Strategy	Granular Deposits	Target 50% share of <□3 Cr.	Current 50.3%. Target achieved.	Delivered	Low
Macro	Industry Norms	Proactive adoption of MFIN 1+2 cap.	Mgmt says they already exclude families with any DPD.	Delivered	Low

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	5.0	Mona Khetan (Dolat)	JLG Quality	Financials	Definition and sustainability of the 98.4% collection efficiency (CE).	Mgmt clarified 98.4% CE applies only to the "current bucket" (due for the month) and Jan trends are similar. This leading indicator suggests Stage 3 slippages will stay high in Q4 as Stage 2 migrates, delaying a real turnaround to Q1 FY26.	None	4.0	Clear leading indicator
2	4.5	Rikin Shah (IIFL)	Capital Burn	Capex / Allocation	Sustainability of 13.7% CET1 given low ROEs and high risk weights.	Mgmt stated capital raise is not planned for 1.5 years as growth will pivot to lower risk-weighted secured assets. CET1 of ~13% is the internal floor, but continued RoA of <0.5% will necessitate dilution sooner than guided.	None	3.5	Pivot to capital preservation
3	4.0	Piran Engineer (CLSA)	Card Credit Costs	Financials	Why card slippages remain high (□570 Cr) despite the "migration" being over.	Management expects cards to normalize by Q1-Q2 FY26 but remains cautious due to the macro environment. Cards are	Normalization timeline	3.0	Cards stabilize before MFI

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						less of a concern than MFI as they are fully provided for at 120 days, meaning no future provision overhang.			
4	5.0	Kunal Shah (Citi)	NIM Trajectory	Financials	Guidance on NIM given MFI disbursal slowdown and interest reversals.	NIM is expected to compress further in Q4 as high-yield unsecured assets shrink as a proportion of total loans. This margin pressure is structural until secured retail achieves enough scale to offset the loss of unsecured yield.	Specific Q4 NIM floor	2.5	Structural margin overhang
5	4.0	Anand Dama (Emkay)	Profitability Risk	Financials	Risk of a net loss in Q4 without one-off gains to buffer provisions.	Mgmt noted they will likely utilize the □273 Cr contingency provision to avoid a negative bottom line while cleaning the MFI book. This confirms Q4 will be another "write-off" quarter for earnings, focused purely on cleanup.	None	4.0	Q4 Profitability at risk

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
6	3.0	Jai Mundhra (ICICI Sec)	Product Cross-sell	Business Overview	Whether MFI (JLG) customers are being cross-sold other products (Gold, Housing).	Management stated they are not offering non-JLG loans to this segment currently, waiting for normalization. This caps the "lifetime value" of the MFI customer base in the near term, limiting cross-sell benefits.	None	4.5	Cross-sell strategy frozen
7	3.5	Suraj Das (Sundaram)	Provisioning Coverage	Financials	Coverage levels for the □550 Cr SMA book.	Mgmt admitted they carry zero specific provisions against the SMA (Stage 2) book, focusing entirely on Stage 3 (NPA) coverage. This implies a future provision hit is inevitable when these SMA balances roll into NPA in Q4.	Specific Stage 2 coverage	2.0	Hidden Stage 2 risk

PATTERN FLAGS & SENTIMENT Analyst questions centered almost entirely on the **MFI (JLG) Stress Duration**. There is a palpable fear that the 98.4% collection efficiency is a "shallow" recovery that doesn't account for the massive SMA-1/2 pools still waiting to slip. Management's posture was one of "calculated cleanup"—using one-offs to front-load the pain to protect the FY26 narrative. However, the withdrawal of FY26 guidance suggests they are less confident than they appear.

Analyst Sentiment Verdict: Skeptical. While management's transparency regarding the JLG cleanup is appreciated, the core earnings power of the bank is currently invisible. The friction between high slippages and the desire to "carry no baggage" into FY26 has forced a near-breakeven P&L, which analysts view as a "lost year."

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q2 FY25)	This Quarter (Q3 FY25)	Direction
Reported RoA	0.64%	0.09%	↓ Deteriorating
NIM (Reported)	5.04%	4.90%	↓ Deteriorating
Provisioning Strategy	BAU provisioning	Front-loaded/Kitchen-sinked (PCR 82%)	↑ Improving (Long-term)
Capital Adequacy (CET1)	14.2%	13.7%	↓ Deteriorating
JLG Growth Strategy	Cautious	Aggressive de-growth (-4% QoQ)	↓ Strategic Pullback
Earnings Buffer	Core PPOP	One-off Gains (Stake sale/Tax write-back)	↓ Low Quality
FY26 Guidance	Reaffirmed 1.4-1.5% RoA	Withheld / Deferred	↓ Credibility Risk
JLG Collection Trends	Stressed (97.5% Sept)	Improving (98.4% Dec)	↑ Improving (Leading Ind.)
Risk Weights	75% for JLG	125% for JLG	↓ Capital Intensive
Deposit Granularity	48.4% (<□3 Cr)	50.3% (<□3 Cr)	↑ Thesis Delivery

STOP HERE.