

RBL Bank Ltd — Jul 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

The punchline. Read this first — it frames everything below.

Result: Inline **One-line:** Management is successfully pivoting toward a secured retail and commercial banking mix, but earnings quality this quarter was bolstered by a one-off tax refund interest, masking flat core margins and rising unsecured slippages.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	PAT of ₹372 Cr beat expectations, but NIM was aided by a ₹70 Cr one-off tax interest refund.	□
Earnings Quality	Low (One-off driven)	Adjusted NIM would have been flat (~5.42%) without the 25bps boost from tax interest refund.	□
Guidance Confidence	Neutral	Vision 2026 targets reaffirmed (1.4%-1.5% RoA), but MFI and Card slippages create a steep H2 climb.	□
Management Credibility	Neutral	Successful insourcing of IT and Card collections; however, transition-led slippages in Cards were higher than anticipated.	□
Business Quality Signal	Improving	Granular deposit share (<₹3 Cr) reached 49.3%; Housing and Rural Vehicle segments showing high-velocity growth.	□
Key Q&A Exchange	Q2 + Q4: Asset Quality	Mgmt admitted Card slippages (₹400 Cr) and MFI stress (₹136 Cr) but expects a pullback in H2 FY25.	□
The Street's Primary Anxiety	Asset Quality & NIM	Analysts pressed on the sustainability of NIMs and the peak of the MFI/Card credit cycle.	□
Capital Cycle Stage	Consolidation	Balancing high RWA growth with internal accruals; CET1 dropped due to Op-Risk RWA changes.	□
Margin / Return Ratio Trajectory	Stable (Adjusted)	Reported RoA 1.14% is high, but core operating RoA is closer to 1.00% post-one-off adjustment.	□
Pricing Power	Stable	New sourcing yields in Business Loans/Housing improved 50bps; offset by rising cost of deposits.	□
FCF Conversion & Quality	N/A (Bank)	Deposit growth (18%) lagging Advance growth (19%); CD ratio tightened to 85.5%.	□
Competitive Moat Signals	Stable	Growing "Commercial Banking" niche (SME/Mid-Corp) with 25% YoY growth.	□
Balance Sheet Strength	Adequate	CET1 at 13.85%; Total CRAR at 15.56%. RWA density increased due to operational risk.	□
Working Capital Efficiency	Deteriorating	CD Ratio at 85.5% is at the upper bound of management's 83-85% target range.	□
Mgmt Guidance Track Record	Reliable	Meeting "Granular Deposit" and "Secured Retail" mix targets consistently.	□
Key Vulnerability	Unsecured Exposure	Combined Cards + MFI still account for ~28% of advances, driving the bulk of slippages.	□
Management Tone	Cautiously Optimistic	Strong on growth strategy; defensive but transparent regarding Card collection transition issues.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** * **Successful Pivot:** The bank is successfully reducing reliance on the volatile Corporate segment (-5% YoY) in favor of Commercial Banking (+25% YoY) and Secured Retail (Housing +52% YoY). * **Deposit Granularity:** Deposits <₹ Cr grew 25% YoY, now making up 49.3% of the book, nearing the 50% target. * **Fee Income Momentum:** Core fee income grew 20% YoY, driven by payments and processing fees, now representing 32% of net total income. * **Negatives:** * **Lower Earnings Quality:** A ₹70 Cr one-off tax refund interest provided a 25bps tailwind to NIM. Without this, margins were effectively flat despite a high-yield asset mix. * **Asset Quality Friction:** Credit Card slippages hit ₹400 Cr, partly due to the friction of transitioning Bajaj Finance co-brand collections in-house. MFI slippages remain elevated at ₹135 Cr. * **Capital Erosion:** CET1 ratio fell 53bps sequentially to 13.85%, largely due to a regulatory change in Operational Risk RWA and higher RWA density. * **Street Concern:** Analysts are focused on whether the "H2 recovery" in credit costs is realistic given current macro headwinds in the MFI sector.

2. BUSINESS PERFORMANCE

2A. KEY METRICS

Metric	Current Qtr (Q1FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	19.5%	↑	↑	↑	Driven by 19% loan growth; boosted by ₹70 Cr tax refund interest.
NIM (AUM basis %)	5.67%	↑ 14bps	↑ 22bps	↑	Adjusted NIM is ~5.42% excluding one-off. Mgmt expects flattish Q2.
Cost of Funds %	6.6%	↑ 50bps	↑ 10bps	↓	Rising due to systemic liquidity; mgmt believes CoF is nearing peak.
Cost of Deposits %	6.5%	↑ 40bps	↑ 10bps	↓	14bps sequential increase; competition for retail deposits remains high.
CASA Ratio (period end %)	32.6%	↓ 470bps	↓ 260bps	↓	Seasonal outflows in March (Current Accounts) led to sequential drop.
Credit-Deposit Ratio %	85.5%	↑ 20bps	↑ 430bps	↓	Net advances (₹86,704 Cr) vs Deposits (₹101,352 Cr). Upper target limit.
Loans Growth (% YoY)	19%	→	→	→	Retail (+31%) offsetting Wholesale (+2%). Corporate Banking shrank 5%.
Deposits Growth (% YoY)	18%	→	↓	↓	Granular deposits (+25%) are the primary growth engine.
GNPA %	2.69%	↓ 53bps	↑ 4bps	→	Significant YoY improvement; minor sequential uptick from Cards/MFI.
NNPA %	0.74%	↓ 26bps	→	→	Stable NNPA indicates adequate provisioning (73.1% PCR).
Slippage Ratio (Annualized)	2.91%	↑ 26bps	↑ 11bps	↓	Total slippages ₹631 Cr (est); Cards (₹400 Cr) and MFI (₹135 Cr) dominate.
Credit Cost (bps)	59bps	↑ 20bps	↑ 6bps	↓	Not annualized. Guided 1.75-2.25% for full year (annualized).
Capital Adequacy (Total) %	15.56%	↓ 112bps	↓ 62bps	↓	Impacted by Operational Risk RWA accounting change (45bps hit).
CET1 %	13.85%	↓ 120bps	↓ 53bps	↓	Well above regulatory req, but declining on RWA density.
PAT (₹Cr)	₹72 Cr	↑ 29%	↑ 5%	↑	Growth driven by PPOP (+33%) and tax interest one-off.
Fee Income Growth %	20%	→	↓	→	Core fee at ₹769 Cr; Payments and Cards are major contributors.

2B. SEGMENT BREAKDOWN

Segment	Advances (₹ Cr)	YoY Growth	Yield	Trend	vs Co Avg	Key Development
Retail Assets	₹53,737	31%	17.3%	↑	Higher	Now 62% of total mix; Housing (+52%) and Rural Vehicles (+74%) surging.
Commercial Banking	₹9,390	25%	~12.5%*	↑	Lower	Focused on SME/Mid-corporates; key wholesale growth engine.
Corporate Banking	₹23,578	(5%)	~9.3%*	↓	Lower	Deliberate shrinkage of low-yield/large corporate exposure.
Credit Cards	₹17,394	22%	~22.0%*	→	Higher	Sourcing diversifying; non-BFL share now 52%.
Microfinance	₹7,253	11%	~22.5%*	↓	Higher	Cautious growth in Q1 due to elections and heatwave.
Housing Loans	₹6,696	52%	9.0%*	↑	Lower	Rapid scaling in secured retail; quarterly disbursals >₹1,200 Cr.

*Estimated from segment yield data in PPT.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	RoA / RoE	FY26: 1.4-1.5% RoA / 14-15% RoE.	Needs 10-15bps RoA expansion annually. Requires sustained 2.0% credit cost.	On Track	High: Unsecured slippages.
Guidance	Deposits	18-20% CAGR; Granular share >50%.	Needs ₹5,000 Cr+ granular inflow/qtr. Current run-rate ₹2,500 Cr.	On Track	Moderate: Systemic liquidity.
Guidance	Advances	20%+ CAGR.	High growth in secured retail must offset wholesale churn.	Delivered	Low: High demand in SME.
Strategy	Card Sourcing	Diversify away from Bajaj Finance (BFL).	Non-BFL share now 52% (up from ~40% year ago).	Delivered	Low.
Strategy	MFI Collection	Pulled back in Q1; target recovery in Q3.	Collection efficiency must return to 99%+.	Mixed	High: Political/Macro disruption.
Strategy	Capital Raise	No immediate equity raise; enabling resolution for QIP.	CET1 of 13.85% lasts 12-18 months at current 20% growth.	Reliable	Moderate: RWA density.

4. ANALYST Q&A

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
1	4.5	Jai Mundhra, ICICI Sec	Liquidity / CD Ratio	Financials	"With CD ratio at 85.5% and tightening liquidity, can you maintain 20% growth guidance?"	Management expects to maintain CD ratio in the 83-85% range while growing granular deposits at 23-25% to fund advances. This implies RBL is betting heavily on its ability to outpace the industry in retail deposit mobilization to avoid a growth slowdown; monitoring point for margin pressure.	None	4.0	Directional with evidence
1a	4.0	Jai Mundhra, ICICI Sec	Asset Quality	Financials	Verbatim: "Slippages breakup for this quarter sir MFI, credit card and corporate numbers?"	Card slippages were ₹400 Cr and MFI was ₹135 Cr, with other segments described as negligible. This confirms that 85% of total bank slippages are coming from the unsecured book, highlighting the risk profile of the bank's current growth engine.	None	5.0	Specific and quantified
1b	3.5		MFI Stress		Verbatim: "Can you	SMA-2 in MFI is around	None	4.0	

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		Jai Mundhra, ICICI Sec		Business Overview	give maybe SMA-1 or SMA-2... in MFI book?"	₹60-65 Cr, with SMA-1 in a similar range, though early-bucket collection efficiency is improving post-election disruption. This suggests a potential tail of slippages into Q2 before the guided H2 recovery; credibility watch on collection teams.			Specific data provided
2	4.0	Kunal Shah, Citigroup	MFI Recovery	Financials	Concern over the ₹135 Cr slippage run-rate in MFI and lack of recoveries.	Management expects Q2 slippages to remain flattish versus Q1 before improving in the second half of the year. This admits that MFI stress is not yet "peaking" and will weigh on earnings for at least one more quarter.	None	3.0	Vague but consistent
2a	5.0	Kunal Shah, Citigroup	NIM Quality	Financials	Verbatim: "Impact of interest on NII... if you can just quantify how much was it?"	The tax interest refund contributed approximately 25 basis points to the Net Interest Margin (₹68-70 Cr). This confirms the "beat" on NIM was	None	5.0	Clear and quantified

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						entirely inorganic, and the core NIM was actually flattish, suggesting limited sequential pricing power.			
3	4.0	Rohan Mandora, Equirus	Op-Ex / Cards	Financials	Why are business acquisition and collection costs growing at 23% YoY, outstripping advances?	Higher costs are due to the double-spend during the transition of co-brand card collections and increased thrust on early-bucket collections. This suggests op-ex efficiency targets (Cost-to-Income) may be pushed out if unsecured delinquencies don't abate; monitoring point for Q3.	None	3.5	Directional with caveats
3a	4.0	Rohan Mandora, Equirus	Card Transition	Management Commentary	Verbatim: "What is it that is happening which is leading to this increase [in slippages]... why confident from 3Q onwards?"	The transition from Bajaj Finance's collection agency to RBL's direct management involved new staff, agencies, and tech, causing temporary friction and slippages. If management is correct, Q3 should see a	None	3.0	Qualitative explanation

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						"clean" number, making this a critical management credibility test.			
4	3.5	Rahil Shah, Crown Cap	FY25 Guidance	Management Commentary	Requesting outlook on credit cost, ROA, and Cost-to-Income for FY25.	Management targets credit costs in the 2.1-2.2% range (annualized) and aims for a 1.15% exit RoA by Q4 FY25. This sets a hard floor for performance; any deviation in credit costs directly threatens the RoA trajectory.	None	4.0	Specific targets given
5	4.5	Nitin Aggarwal, Motilal	NIM Sustainability	Financials	Have margins peaked given the one-off and the slowdown in high-yield MFI/Cards?	Management expects flattish NIM in Q2 followed by improvement in H2 through better risk-adjusted returns and peaking cost of funds. This implies RBL is banking on a rate cut or liquidity easing in H2 to drive margin expansion, which is a macro-dependent bet.	None	3.0	Macro-dependent guidance
5a	4.0			Financials			None	4.5	

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
		Nitin Aggarwal, Motilal	Capital Erosion		What caused the sharp drop in Tier 1 capital?	The drop was caused by a ₹75 Cr impact from investment regulations and a 45bps hit from Op-Risk RWA changes (linked to grossing up BC costs in MFI). This reveals that RBL's capital consumption is sensitive to regulatory accounting shifts, not just loan growth.			Quantified tech details
6	3.0	Rati Pandit, Nirmal Bang	Sourcing Mix	Strategy	Reliance on DSAs for newer businesses.	Non-DSA sourcing is currently at 30-32%, with a goal to reach 50% via branches and the RFL subsidiary. This pivot to direct sourcing is essential for long-term customer stickiness and lower acquisition costs.	None	4.0	Directional with data
7	4.0	Prabal, Ambit Capital	Growth vs Margin	Strategy	Will the bank sacrifice growth to maintain the CD ratio if liquidity stays tight?	Management refused to admit a growth pullback, stating they will maintain the 18-20% deposit growth plan and 83-85%	None	2.0	Deflected — key signal

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
						CD ratio. This stubbornness on growth suggests a risk of overpaying for deposits if retail mobilization lags.			
7a	4.5	Prabal, Ambit Capital	Capital Strategy	Strategy	Why no capital raise now given Tier 1 is at 14% and declining?	Management expects to raise Tier 2 capital this year and will likely use the QIP resolution within 12 months, but sees no "immediate" need for equity. This confirms an equity dilution is likely a H1FY26 event, capping RoE expansion in the medium term.	None	4.0	Clear timeline

PATTERN FLAGS & SENTIMENT

The recurring theme across analyst questions was the **quality of the NIM beat and the "tail" of unsecured credit costs**. Analysts were quick to strip out the one-off tax refund interest, revealing a skeptical posture toward the 5.67% reported NIM. There was significant anxiety regarding the "transition-led" slippages in the Credit Card segment; management's explanation that friction was inevitable during the Bajaj Finance collection insourcing was accepted but remains a "show me" story for Q3.

Analyst Sentiment Verdict: Skeptical but observant. Analysts are convinced that the business mix is improving (granular deposits, secured retail), but they are hostile toward the reliance on one-offs to meet RoA targets. The greatest unresolved risk is the **MFI sector's macro health**—if the "H2 recovery" promised by management does not materialize, the 1.4% RoA target for FY26 will be mathematically impossible.

GUIDANCE GAPS REVEALED IN Q&A

Topic	What Mgmt Claimed	What Q&A Revealed	Gap / Walk-back	Risk to Thesis
NIM	Reported 5.67% (Strong expansion)	25bps came from a one-off tax refund interest.	Core NIM is flat. Real pricing power on the asset side is being offset by deposit costs.	Moderate: RoA expansion relies on core NIM growth.
Credit Costs	Stable asset quality.	Slippages in Cards and MFI remain at peak-cycle levels (~₹535 Cr combined).	Slippage "pullback" delayed. Q2 will be as high as Q1.	High: Elevated credit costs cap RoE.
Capital	Well-capitalized.	CET1 dropped 53bps QoQ due to Op-Risk RWA.	RWA density is rising faster than expected. Internal accruals are not yet self-funding 20% growth.	Moderate: Likely equity dilution in <12 months.

5. WHAT CHANGED vs PRIOR QUARTER

First entry — no prior quarter to compare.

What Changed	Prior Quarter	This Quarter	Direction
Reporting Baseline	N/A	Q1FY25 Initial Analysis	First Entry

(Note: This is the baseline report. Future updates will track the H2 recovery in MFI and Card slippages as the primary variables.)