RBL Bank Ltd — Jul 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline on PAT / Miss on NIM and OpEx **One-line:** Management has accepted a sharp, structural margin reset (4.89% to 4.50%) and an OpEx spike to 72% of income to fast-track the pivot toward secured assets and in-house collections, making FY26 a "transition trough" year.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Miss	NIM (4.50%) and C:I Ratio (72.4%) missed prior directional guidance of stability.	□
Earnings Quality	Moderate	PAT of □200 Cr was supported by Treasury gains (G-Sec sales) offsetting a -13% YoY NII decline.	□
Guidance Confidence	Neutral	Mgmt reiterated 1% exit RoA and 4.8% exit NIM, but these require aggressive H2 recoveries.	□
Management Credibility	Neutral	Credibility is being tested on the "NIM trough" call and the ability to rationalize the in-house card collection costs.	□
Business Quality Signal	Deteriorating (Short-term)	Core PPOP fell 18% QoQ; the high-yield unsecured engine is being intentionally shrunk before the secured engine has reached efficiency.	□
Key Q&A Exchange	Q1 & Q23: NIM Trough	Mgmt confirmed Q1/Q2 as the margin bottom, with a 100bps exit SA cost reduction as the primary defense.	□
The Street's Primary Anxiety	OpEx & Margin Floor	Analysts pressed on the 72.4% C:I ratio; Mgmt promised rationalization only from Q3 onwards.	□
Capital Cycle Stage	Consolidation	RWA growth is being optimized via CGFMU and a shift to lower-risk secured assets (CET1 at 14.05%).	□
Margin / Return Trajectory	Deteriorating	NIM fell 39bps QoQ; RoA at 0.56% remains well below the 1% structural target.	□
Pricing Power	Eroding	Yield on advances fell 50bps QoQ (12.5% vs 13.0%) due to benchmark resets and mix shift.	□
FCF Conversion & Quality	N/A (Bank)	Granular deposits (<□3 Cr) now 51.4% of total, a positive structural shift.	□
Competitive Moat Signals	Stable	Branch network productivity is being utilized for secured retail sourcing (34% YoY growth in housing/business loans).	□
Balance Sheet Strength	Strong	Capital adequacy is robust (15.59%); PCR remains healthy despite JLG/Card slippages.	□
Working Capital Efficiency	N/A (Bank)	LCR at 152% indicates significant excess liquidity which is a drag on current NIMs.	□
Mgmt Guidance Track Record	Mixed	Decisive cleanup in Q4 was followed by a deeper-than-expected margin hit in Q1.	□
Key Vulnerability	OpEx Stickiness	If in-house collection costs don't moderate in Q3, the 1% RoA target will be mathematicaly impossible.	□
Management Tone	Candid / Transitionary	Acknowledged the "brunt of margins" was taken this quarter to de-risk the balance sheet.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** * **Balance Sheet De-risking:** The high-risk Unsecured Retail book (Cards/JLG) shrank 10% YoY, while Secured Retail (Housing/Business Loans) grew 23%, materially improving the risk texture. * **Liability Granularity:** Deposits <□3 Cr grew 16% YoY (faster than total deposits at 11%), now accounting for 51.4% of the mix. * **Aggressive Rate Action:** Management executed a deep cut in SA rates (exit cost down 100bps), which should provide a significant NIM tailwind starting Q2. * **Capital Efficiency:** CET1 improved to 14.05% as the bank moved toward lower risk-weighted secured assets. * **Negatives:** * **Severe NIM Compression:** NIM crashed to 4.50% from 4.89% last quarter, driven by interest reversals on slippages and the repricing of external benchmark loans. * **OpEx Inefficiency:** The Cost-to-Income ratio spiked to 72.4% (vs 66.4% in Q4), largely due to higher collection costs associated with the in-housing of card operations. * **Asset Quality Frictions:** NNPA rose from 0.29% to 0.45% QoQ, with gross slippages remaining elevated in Credit Cards (□520 Cr) and JLG (□318 Cr). * **Street Concern:** Analysts are skeptical that NIM can claw back to 4.8% by Q4 given the ongoing shift to lower-yielding secured loans. Mgmt response: The standard book mix in MFI/Cards will improve as technical write-offs occur, aiding yields. * **Watchpoint:** The "Rationalization Pivot" in Q3. If OpEx does not decrease in absolute terms by Q3, the thesis of an earnings recovery in H2 FY26 fails.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS

DATA SOURCE: PPT figures used as primary source.

Metric	Current Qtr (Q1FY26)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	-13%	↓	-5%	↓	Impacted by external benchmark resets and lower unsecured mix.
NIM (AUM basis %)	4.50%	↓ 117bps	↓ 39bps	↓	Q1 is the trough; impact of SA rate cuts to flow from Q2.
Cost of Funds %	6.55%	↓ 7bps	↓ 4bps	↑	SA cost exit is 100bps lower; TD rates cut by 40-70bps.
Cost of Deposits %	6.53%	↓ 9bps	→	→	Mix moving to retail deposits, causing a gradual decline.
CASA Ratio (period end %)	32.5%	↓ 60bps	↓ 160bps	↓	CASA balances lower sequentially due to Q4 dividend mandates.
CASA Ratio (avg %)	28.0%	↓ 130bps	↓ 170bps	↓	Average CASA impacted by corporate escrow movements.
Credit-Deposit Ratio %	83.8%	↓ 170bps	↑ 30bps	→	LCR high at 152%; plan to moderate to 130-135%.
Loans Growth (% YoY)	9%	↓	↑	□	Driven by Secured Retail (+23%) and Comm Banking (+32%).
Deposits Growth (% YoY)	11%	↑	↑	□	Granular deposits (<□3 Cr) grew 16% YoY.
GNPA %	2.78%	↑ 9bps	↑ 18bps	↓	Slight uptick following the Q4 kitchen-sinking cleanup.
NNPA %	0.45%	↓ 29bps	↑ 16bps	↓	Slippages in Cards/JLG pushed NNPA up from record low.
Slippage Ratio %	1.15%	↑ 29bps	↓ 3bps	→	Gross slippages □1,137 Cr; Net slippages □1,011 Cr.
Credit Cost (% funded)	1.86%	↑ 100bps	↑ 93bps	↓	Higher due to 1% contingent JLG provision reinstatement.
Capital Adequacy (CET1 %)	14.05%	↑ 20bps	↓ 1bp	→	Robust; benefited from lower RWA of secured loans.
PAT (□Cr)	□200 Cr	↓ 46%	↑ 192%	□	Sequential jump due to lower base; YoY down on NII hit.
Fee Income Growth %	3%	↓	↓	↓	Core fee muted due to lower card volumes; target high teens.

2B. SEGMENT BREAKDOWN

Segment	Advances (□ Cr)	YoY Growth	Yield (Sourcing)	Trend	vs Co Avg	Key Development
Wholesale	□37,807	15%	N/A	↑	Lower	Commercial Banking (+32%) is the primary growth engine.
Credit Cards	□17,191	-1%	N/A	↓	Higher	Deliberate slowdown; ARC sale of □938 Cr written-off pool.
JLG (MFI)	□5,435	-25%	N/A	↓	Higher	Reinstated 1% contingency provision; 50% CGFMU cover.
Business Loan	□11,656	42%	13.4%	↑	Higher	Secured growth focus; 735+ avg CIBIL.
Housing Loan	□8,310	24%	9.2%	↑	Lower	Prime Housing ATS □73 Lakhs; Affordable ATS □21 Lakhs.
RVF (Tractor)	□2,860	32%	16.0%	↑	Higher	Sourcing yield 16.0%; strong geographic expansion.

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	NIM	Exit Q4 at 4.8%.	Requires 30bps expansion; dependent on 100bps SA cost drop.	Miss (Q1)	High
Guidance	RoA	1% Exit RoA for Q4 FY26.	Current 0.56%; needs Credit Cost <1.9% and NIM 4.8%.	Miss (Q1)	High
Guidance	Loan Growth	Mid-teens (14-15%) for FY26.	Q1 at 9%; requires strong H2 acceleration in Secured.	In-Progress	Moderate
Guidance	OpEx	Rationalize from Q3; C:I to trend down.	Absolute OpEx must stay flat or fall vs Q1 (□1,847 Cr).	Miss (Q1)	High
Strategy	Card Strategy	Mid-single digit growth.	Currently -1% YoY; mgmt slowing to redesign product.	Delivered	Low
Strategy	MFI Guardrails	Normalize slippages by Q3/Q4.	Dependent on SMA position (currently back to Q1 FY25 levels).	In-Progress	Moderate
Strategy	Asset Mix	Target 60% Retail / 40% Wholesale.	Achieved (60% Retail, 40% Wholesale).	Delivered	Low
Balance	Capital	CET1 >14%.	Current 14.05%; sustainable via internal accruals.	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	Jai Mundhra (ICICI Sec)	Yield Outlook	Financials	"Assuming there is no material change in loan mix, how should one look at overall yield?"	Management expects a 15-20 bps further drop in yields in Q2, offset by a 20-25 bps reduction in deposit costs. This implies Q2 will be the definitive bottom for NIMs before expansion in H2.	None	4.0	Specific bottom-call
3	4.0	Jai Mundhra (ICICI Sec)	MFI Normalization	Business Overview	"Have we achieved normalization in MFI slippages by Q2?"	Management indicated slippages will mirror the lower SMA position (75-80% ratio) and trend down significantly in Q3 and Q4. This signals the peak stress in the JLG book is now behind the bank.	Precise "normal" %	3.5	Directional
9	4.5	Nitin Aggarwal (Motilal Oswal)	Card Profitability	Financials	"How is the in-housing of collections affecting the profitability of the card business?"	Management admitted card profitability is currently below trend due to elevated credit and collection costs but expects a return to normal by year-end. This drag will likely persist for at least one more quarter.	Segment-level RoA	3.0	Acknowledged drag

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
11	3.5	Harsh Modi (JPM)	OpEx Trajectory	Financials	"Is it fair to assume costs will stay high in Q2 and only moderate in H2?"	Management confirmed that absolute OpEx is unlikely to go up from here and will stay flat/moderate as rationalization kicks in. This places the burden of proof on the Q3 results.	Absolute cost floor	3.0	Rationalization focus
13	4.5	Kunal Shah (Citi)	Margin Stability	Financials	"What should be the steady state levels of margin or Q4 exit?"	Management maintains a target of 4.8% NIM for Q4 exit, driven by SA rate cuts and the re-emergence of income from the MFI standard book. This requires a sharp 30bps expansion in 6 months.	None	3.5	Aggressive target
15	4.0	Rikin Shah (IIFL)	OpEx Rationalization	Financials	"Are we going to start rationalizing it (collection cost) so soon again?"	Management is using AI-led initiatives and analytical mapping to replace manual, cost-intensive collection methods. This transformation is central to lowering the C:I ratio from the current 72%.	None	3.5	Specific tech-lever
19	4.0	Piran Engineer (CLSA)	Card Slippages	Financials	"Why are the slippages remaining	Management noted a calendar anomaly in	None	3.0	Lagging indicator

Q#	Relevance	Analyst / Firm	Theme Cluster	Category	Underlying Concern	Management Response & Investment Implication	Evaded / Not Addressed	Credibility	Verdict
					high in cards?"	Q1 (more cycles) but claimed early delinquency (6 MOB 30+) is clearly improving. This suggests a lag between credit actions and P&L results.			
23	3.0	Rakesh Kumar (Valentis)	ARC Sale	Financials	"Why are we selling it (Cards) for □25 Cr when recovering □80-100 Cr?"	Management explained they sell deep-vintage, low-collectability pools to free up collection capacity for newer, high-probability portfolios. This is a capacity-optimization move rather than a fire sale.	None	4.0	Logical defense

PATTERN FLAGS & SENTIMENT Analyst anxiety was centered on the **"Double-Whammy"** of falling margins (NIM) and rising OpEx. Multiple analysts questioned the bridge to a 1% RoA, given the current run-rate is nearly half that. Management appeared defensive yet firm on their H2 recovery story, leaning heavily on the **100bps SA rate cut** as the savior for margins.

Analyst Sentiment Verdict: Skeptical but observant. Analysts are giving the bank a "pass" for Q1 as a transition trough but have set a hard deadline for Q3 to see OpEx rationalization. The primary unresolved risk is the **yield-mix tension**: can the bank expand NIM while the high-yield unsecured book is shrinking?

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q4 FY25)	This Quarter (Q1 FY26)	Direction
NIM	4.89%	4.50%	↓ Deteriorating
Cost-to-Income	66.4%	72.4%	↓ Deteriorating
NNPA	0.29%	0.45%	↓ Deteriorating
JLG Provisioning	100% PCR on NPAs	1% Contingent Provision reinstated	↑ Improving (Safety)
Unsecured Mix	28% of advances	27% of advances	↑ Thesis Delivery
Average CASA	29.7%	28.0%	↓ Deteriorating
SA Rate Strategy	80bps cut announced (May)	100bps exit cost reduction realized	↑ Improving (Cost)
Card Operations	External/Hybrid collections	In-housed (driving OpEx spike)	□Structural Pivot
LCR	142%	152%	↓ Drag on RoA

STOP HERE.