

RBL Bank Ltd — May 2025 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Inline (on P&L) / Strong Beat (on Balance Sheet Cleanup) **One-line:** Management has executed a definitive "kitchen sink" quarter, exhausting the ₹273 Cr contingency provision to move JLG (MFI) Net NPAs to zero and SMA provisions to 75%, effectively sacrificing current-year ROA to secure a "clean slate" for FY26.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Inline	PAT of ₹69 Cr reflects the anticipated "write-off" quarter for earnings; NIM stable at 4.89%.	□
Earnings Quality	Low (Buffer driven)	Core PBT was supported by utilizing the entire ₹273 Cr contingency provision; without it, the bank would have posted a loss.	□
Guidance Confidence	Strong	Management reinstated growth guidance (16-18%) and NIM normalization for H2 FY26.	□
Management Credibility	Strong	Full transparency on MFI provisions (100% PCR on NPAs) and decisive action on SA rates (80bps cut).	□
Business Quality Signal	Improving	Pivot to Secured Retail (43% YoY growth) is gaining material scale, now 32% of retail advances.	□
Key Q&A Exchange	Q8: CGFMU Economics	Management clarified that MFI risk is now "theoretically 0" at a 1% cost, but with a 2-year claim lag.	□
The Street's Primary Anxiety	NIM Compression	Fear of yield pressure from the shift to secured assets; Mgmt responded with a deep 80bps SA rate cut.	□
Capital Cycle Stage	Consolidation	Focusing on capital efficiency; RWA grew slower than advances due to MFI risk-weight tailwinds.	□
Margin / Return Trajectory	Deteriorating (Short-term)	NIM to remain under pressure in H1 FY26 due to rate re-pricing lags before trending up in H2.	□
Pricing Power	Eroding	Yield on advances fell to 13.0% (vs 13.3% in Q3) as high-yield unsecured books (JLG/Cards) shrank.	□
FCF Conversion & Quality	N/A (Bank)	Deposit granularity reached 50%, meeting the long-term target ahead of schedule.	□
Competitive Moat Signals	Stable	Branch-led sourcing for secured assets (Business Loans) reached ~35%, reducing acquisition costs.	□
Balance Sheet Strength	Strong	PCR including technical write-offs reached 96.45%; Net NPA at a record low of 0.29%.	□
Working Capital Efficiency	Improving	Slippages in both Cards (₹479 Cr) and JLG (₹472 Cr) peaked in Q3 and are now trending down.	□
Mgmt Guidance Track Record	Improving	Reinstated FY26 targets after a temporary withdrawal in Q3, signaling internal confidence.	□
Key Vulnerability	Rate Cut Lag	Floating rate loans will re-price down faster than term deposits, creating a H1 FY26 margin trough.	□
Management Tone	Confident / Proactive	Shifted from "defensive cleanup" in Q3 to "aggressive execution" for FY26.	□

Sentiment: □ **Neutral Key Takeaways (Positives & Negatives):** * **Positives:** * **Total Balance Sheet De-risking:** By taking 100% provision on JLG NPAs and 75% on SMA, management has removed the "earnings overhang" that plagued the bank for the last three quarters. * **Secured Pivot Success:** Housing and Business Loans grew 34% YoY, proving the bank can scale lower-risk assets to offset the unsecured pullback. * **Deep Deposit Rate Cut:** The 80bps cut in SA rates (from 6.4% to 5.6%) is a bold move to protect NIMs against the impending rate down-cycle. * **Guidance Reinstated:** Visibility has returned; management expects 16-18% growth and CET1 >13% through FY26. * **Negatives:** * **Core Profitability Decimated:** Stripping out the contingency provision utilization, the bank is barely breaking even, with FY25 RoA at 0.51%. * **Structural Yield Compression:** Advance yields fell 110bps YoY (to 13.0%) as the portfolio mix shifts toward lower-yielding mortgages and wholesale. * **MFI Growth Vacuum:** JLG book shrank 23% YoY; management will not return to pre-crisis growth levels, capping the "high-yield" engine of the past. * **Street Concern:** Analysts are focused on the "NIM Trough" in H1 FY26. Management's response: The 80bps SA rate cut in May and the high proportion of fixed-rate loans (45-47%) will cushion the blow. * **Watchpoint:** Monitor the "CGFMU claim cycle" in FY27; if claims are rejected or delayed beyond 24 months, the credit cost credit will not hit the P&L as timed, potentially hurting the RoA recovery thesis.

2. BUSINESS PERFORMANCE

2A. KEY METRICS DATA SOURCE: PPT figures used as primary source.

Metric	Current Qtr (Q4FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	-2%	↓	-1%	↓	Impacted by interest reversals on slippages and lower JLG volumes.
NIM (AUM basis %)	4.89%	↓ 56bps	↓ 1bp	→	Stable QoQ; yield compression offset by lower cost of funds.
Cost of Funds %	6.6%	↑ 10bps	→	→	Management noted it was down 4bps sequentially to 6.59%.
Cost of Deposits %	6.5%	↑ 10bps	↓ 10bps	↑	Down 4bps sequentially (6.53%) due to early rate actions.
CASA Ratio (period end %)	34.1%	↓ 110bps	↑ 130bps	↑	Sequential improvement in balances led by granular SA.
CASA Ratio (avg %)	29.7%	↓ 50bps	↑ 20bps	↑	Improved on average basis; focus on transaction intensity.
Credit-Deposit Ratio %	83.5%	↑ 230bps	↓ 120bps	↑	Advances up 2% QoQ while deposits grew 4% QoQ.
Loans Growth (% YoY)	10%	↓	↑	□	Driven by Secured Retail (+43%) and Comm Banking (+29%).
Deposits Growth (% YoY)	7%	↓	↑	□	Led by Granular deposits (+16%); now 50% of total.
GNPA %	2.60%	↓ 5bps	↓ 32bps	↑	Improved via accelerated write-offs and cleanup.
NNPA %	0.29%	↓ 45bps	↓ 24bps	↑	Record low due to 100% provisioning on JLG GNPA's.
Slippage Ratio (%)*	1.15%	↑ 29bps	↓ 35bps	↑	Total slippages fell to ₹1,058 Cr (from ₹1,222 Cr in Q3).
Credit Cost (% funded)	0.93%	↓ 7bps	↓ 46bps	↑	Includes accelerated JLG provisions; net of contingency release.
Collection Efficiency %	99.4%	↑	↑	↑	JLG CE reached 99.4% in March (ex-Karnataka) / 99% overall.
Capital Adequacy (CET1 %)	14.06%	↑ 21bps	↑ 38bps	↑	Benefited from lower risk weights on MFI (CGFMU impact).
PAT (₹Cr)	₹69 Cr	↓ 80%	↑ 109%	□	Bottom line remains suppressed by cleanup provisions.
Fee Income Growth %	17%	↓	↑	↑	Strong core fee growth (₹968 Cr) offsetting NII pressure.
*Slippage Ratio not annualized as per PPT Slide 6.					

2B. SEGMENT BREAKDOWN

Segment	Advances (₹Cr)	YoY Growth	Yield (Q4)	Trend	vs Co Avg	Key Development
Wholesale	₹36,915	6%	9.3%	→	Lower	Commercial Banking (+29% YoY) is the focus area.
Credit Cards	₹17,133	1%	17.5%*	↓	Higher	Slippages normalized to ₹479 Cr; mid-single digit growth target.
JLG (MFI)	₹5,752	-23%	17.5%*	↓	Higher	Net NPA is NIL; 75% coverage on SMA book.
Business Loans	₹11,162	37%	17.3%	→	Higher	High-growth focus area; 35% sourced through branches.
Housing Loans	₹8,177	31%	9.4%	↑	Lower	Strong secured momentum; yields stable.
Rural Vehicle Fin	₹2,754	24%	17.3%	→	Higher	Scaling well with 0 credit costs for 8 quarters.

**Yields for Cards and MFI are blended into "Unsecured Retail" yields.*

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery	Risk Flag
Guidance	Advances Growth	16% to 18% for FY26.	Requires ₹15,000 Cr net addition; feasible if secured retail holds 25%+ growth.	Reinstated	Low
Guidance	NIM	Flattish to lower in H1 FY26; trending up in H2.	Dependent on SA rate cut (May) offsetting EBLR asset re-pricing.	Mixed	High
Guidance	JLG Mix	Cap at 6.0% to 7.5% of total book.	Current 6.2%. Needs discipline to not chase yield.	Delivered	Low
Guidance	Opex Growth	10% YoY for FY26.	Requires massive productivity gains; current run-rate is 10%.	Delivered	Moderate
Strategy	Credit Card Growth	Mid-single digit growth.	Conscious slowdown (1% YoY in Q4) to prioritize quality.	Delivered	Low
Strategy	JLG Cleanup	"Clean Slate" with NIL Net NPA.	PCR on JLG NPAs at 100%. Target achieved.	Delivered	Low
Macro	Rate Environment	80bps SA rate cut effective May.	Blended savings rate to drop from 6.4% to 5.6%.	Proactive	Low
Balance	Capital	CET1 to remain >13% in FY26.	Current 14.06%; pivot to lower RWA secured assets supports this.	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	4.5	Jai Mundhra (ICICI Sec)	Contingency Provisions	Financials	"You utilized the contingent provisions... does this signify near-normalized stress levels?"	Management confirmed that utilization signifies a move to a "clean slate" where cards are manageable via P&L, and MFI is now heavily provided for. This implies that quarterly "shocks" to earnings should cease from Q1 FY26.	None	4.0	Clear Cleanup
8	5.0	Anand Swaminathan (BofA)	CGFMU Economics	Strategy	"What are the ROA economics of CGFMU? Why not grow aggressively if it's a good deal?"	Management explained that for a 1% premium, they get 15% portfolio coverage, but claims have a 2-year lag, making the "theoretical credit cost" near-zero over a cycle. This suggests MFI profitability will be "lagged" but structural risk is capped, supporting a long-term RoA of ~2%.	None	5.0	Thesis-Critical
7	4.0	Piran Engineer (CLSA)	Deposit Rate Cuts	Financials	"What about term deposit cuts? Majority of retail deposits would get re-priced 25bps incrementally?"	Management confirmed both SA (80bps) and peak TD (25bps) rate cuts to protect margins against floating rate	None	4.5	NIM Protection

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						loan re-pricing. This proactive liability management is the primary defense against NIM erosion in FY26.			
13	4.0	Kunal Shah (Citi)	JLG Guardrails	Business Overview	"Any deterioration in collection efficiency since the April 1 guardrail implementation?"	Management stated no impact on collections has been seen in the first three weeks of April; the primary impact is a "transition delay" in new loan approvals. This mitigates fears of an industry-wide collection collapse due to tighter lending.	None	4.0	Monitoring Point
23	3.5	Param Subramanian (Investec)	PPOP Outlook	Financials	"How should we think about operating profit (PPOP) for FY26 given rate cuts and mix shifts?"	Management expects absolute PPOP to be "flattish" in FY26 as the high-yield unsecured book shrinks, offset by opex efficiencies and core fee growth. This signals that FY26 will be a year of "rebuilding the base" rather than earnings breakout.	None	3.0	Rebuild Year

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6	3.0	Piran Engineer (CLSA)	Unsecured Normalization	Financials	"When will cards and MFI normalize? You mentioned Q1 and Q2?"	Management expects Card normalization from Q2 FY26 and MFI slippages to decline meaningfully in Q1. This provides a hard timeline for analysts to measure management's "clean slate" promise.	Specific slippage targets	3.5	Specific Timeline
16	3.0	Rohan Mandora (Equirus)	Business Loan Quality	Financials	"What are the 30-day and 90-day SMA levels for Business Loans?"	Management stated they expect "negligible credit costs" in this book and no abnormal build-up of SMA pools. This reinforces the "Secured Pivot" as a high-quality growth engine.	Specific SMA numbers	3.0	Direction Only

PATTERN FLAGS & SENTIMENT Analyst anxiety has shifted from "Where is the bottom?" (Q3) to "What is the new normal RoA?" (Q4). The recurring questions on **CGFMU economics** and **NIM re-pricing** indicate the Street is skeptical of the bank's ability to maintain high margins as it moves toward a 60-70% secured book. Management's posture was highly confident, backed by the proactive 80bps SA rate cut—a move few peers have yet dared.

Analyst Sentiment Verdict: Cautiously Optimistic. The successful kitchen-sinking of the MFI book has improved management credibility. However, the expectation of "flattish PPOP" for FY26 means the bank is unlikely to see a valuation re-rating until the "Secured Retail" segment proves it can deliver 2%+ RoA without the crutch of high-yield unsecured loans. The unresolved issue is the **H1 FY26 NIM trough**, which remains a live risk.

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q3 FY25)	This Quarter (Q4 FY25)	Direction
FY26 Guidance	Withheld / Deferred	Reinstated (16-18% growth)	↑ Improving
JLG Net NPA	1.50%	0.00% (NIL)	↑ Improved (Cleanup)
SMA Provisioning	0% (on Stage 2)	75% (on JLG SMA book)	↑ Improved (Buffer)
Contingency Buffer	₹273 Cr (Hoarded)	₹0 (Fully utilized for cleanup)	↓ Zeroed (Strategic)
Savings Account Rate	6.4% (Blended)	5.6% (Effective May)	↑ Improving (Cost)
Secured Asset Mix	25% (Mar '24)	32% (Mar '25)	↑ Thesis Delivery
JLG Collection (CE)	98.4% (Dec)	99.4% (Mar - ex Karnataka)	↑ Improving
Management Tone	Cautious / Defensive	Confident / Clean Slate	↑ Improving
Slippage Trend	Peaking (₹1,222 Cr)	Decelerating (₹1,058 Cr)	↑ Improving

STOP HERE.