RBL Bank Ltd — Oct 2024 Quarterly Analysis

1. VERDICT & BUSINESS QUALITY SNAPSHOT

Result: Weak Miss **One-line:** The unsecured stress thesis is playing out more aggressively than anticipated, with slippages nearly doubling QoQ and dragging RoA to 0.64%, significantly compromising the bank's FY26 profitability targets despite strong momentum in granular deposits and secured retail.

Dimension	This Quarter	Signal / Evidence	Sentiment
Beat/Miss vs Guidance	Weak Miss	PAT of □223 Cr is a sharp sequential drop (vs □372 Cr in Q1); NIM collapsed 63bps QoQ to 5.04%.	□
Earnings Quality	Low (Provisioning & Reversals)	Profitability hit by interest reversals on slippages; core operating performance overshadowed by unsecured asset quality stress.	□
Guidance Confidence	Weak	Reaffirmed 1.4-1.5% RoA target for FY26 looks mathematically difficult given current H1 RoA is only 0.88%.	□
Management Credibility	Neutral	Management transparently reported "near term stress" in unsecured retail, but the scale of slippages (□1,026 Cr) exceeded prior "transition friction" narratives.	□
Business Quality Signal	Mixed	Strong granularity in deposits (48.4% <□3 Cr) and growth in Housing (+56% YoY) is being offset by severe unsecured credit costs.	□
Key Q&A Exchange	N/A — PPT_ONLY	Not applicable	—
The Street's Primary Anxiety	Asset Quality Peak	The doubling of slippages and the PBT RoA of Unsecured Retail turning negative (-0.6% for H1).	□
Capital Cycle Stage	Consolidation	Focusing on capital preservation and secured assets; CET1 improved to 14.2% including H1 profits.	□
Margin / Return Ratio Trajectory	Deteriorating	RoA fell from 1.14% in Q1 to 0.64% in Q2; NIM compressed significantly below the 5.4-5.5% core range.	□
Pricing Power	Eroding (Asset Side)	Yield on advances dropped 63bps QoQ to 13.54%, largely due to interest reversals on NPAs.	□
FCF Conversion & Quality	N/A (Bank)	Deposit growth (20%) is now outpacing Advance growth (15%), improving the liquidity profile.	□
Competitive Moat Signals	Stable	Maintaining niche in Commercial Banking (+17% YoY) and Credit Cards (17% YoY) despite stress.	□
Balance Sheet Strength	Adequate	CET-1 at 14.2% provides a sufficient buffer for current credit cycle volatility.	□
Working Capital Efficiency	Improving	Credit-Deposit Ratio improved as deposits grew □6,607 Cr while advances grew only □1,178 Cr QoQ.	□
Mgmt Guidance Track Record	Mixed	Consistently hitting "Granular Deposit" targets but missing "Credit Cost" stability expectations.	□
Key Vulnerability	Unsecured Contagion	Microfinance (MFI) and Credit Cards together continue to drive >85% of total bank slippages.	□
Management Tone	Cautious	Shifted language from "transition friction" in Q1 to "near term stress" and "interest reversals" in Q2.	□

Sentiment: □Neutral

Key Takeaways (Positives & Negatives): * **Positives:** * **Deposit Granularity:** Granular deposits (<₹3 Cr) grew 22% YoY, now representing 48.4% of total deposits, inching closer to the 50% target. * **Secured Pivot:** Secured retail segments like Housing (+56% YoY) and Rural Vehicle Finance (+58% YoY) are scaling rapidly, providing a much-needed stabilizer to the portfolio. * **Capital Accretion:** CET-1 improved to 14.2% (including H1 profits), ensuring the bank is "well capitalized for the medium term" despite the credit cycle. * **Negatives:** * **Slippage Surge:** Total slippages spiked to ₹1,026 Cr in Q2 (from ₹631 Cr in Q1), driven by both MFI and Credit Cards. * **Margin Compression:** Reported NIM of 5.04% was a significant miss, impacted by the absence of the Q1 tax refund one-off and heavy interest reversals from new NPAs. * **Profitability Crash:** Unsecured Retail (Cards/MFI) reported a negative PBT RoA of -0.6% for H1 FY25, indicating this segment is currently a drag on shareholder value. * **Forward Watchpoint:** The bank needs a significant "pullback" in credit costs in H2 FY25 to maintain its 1.15% RoA exit guidance; any continuation of the ₹1,000 Cr/quarter slippage run-rate will force a thesis revision.

---

2. BUSINESS PERFORMANCE

2A. KEY METRICS *Concall not available — commentary absent.*

Metric	Current Qtr (Q2FY25)	YoY Change	QoQ Change	Trend	Mgmt Commentary
NII Growth (%)	9%	↓	↓	↓	Impacted by interest reversals and lower MFI disbursals.
NIM (AUM basis %)	5.04%	↓ 50bps	↓ 63bps	↓	Significant drop from 5.67% (Q1) / 5.54% (PY).
Cost of Funds %	6.57%	↑ 24bps	↓ 6bps	→	Stable CoF despite tight systemic liquidity.
Cost of Deposits %	6.53%	↑ 32bps	→	→	Management notes CoD has stabilized.
CASA Ratio (period end %)	33.6%	↓ 210bps	↑ 100bps	↑	Improved sequentially; average CASA at 30.2%.
Credit-Deposit Ratio %	81.4%	↓ 360bps	↓ 410bps	↑	Deposits grew 20% vs Advances 15%.
Loans Growth (% YoY)	15%	↓	↓	↓	Driven by Retail (+24%); Wholesale growth slow at 3%.
Deposits Growth (% YoY)	20%	→	↑	↑	Led by granular deposits (22% YoY growth).
GNPA %	2.88%	↓ 24bps	↑ 19bps	↓	Sequential uptick due to unsecured slippages.
NNPA %	0.79%	↑ 1bps	↑ 5bps	↓	Marginal increase reflecting slippage pressure.
Slippage Ratio (%)	1.19%	↑ 44bps	↑ 33bps	↓	**Not annualized.** 1,026 Cr slippages in one quarter.
Credit Cost (bps)	80bps	↓ 10bps	↑ 21bps	↓	**Not annualized.** Excl. contingency provision of PY.
Capital Adequacy (Total) %	15.9%	↑ 30bps	↑ 34bps	↑	Improved with H1 profit inclusion.
CET1 %	14.2%	↑ 40bps	↑ 35bps	↑	Robust capital position.
PAT (□Cr)	□223 Cr	↓ 24%	↓ 40%	↓	Earnings hit by elevated credit costs and margin drop.
Fee Income Growth %	32%	↑	↑	↑	Strong core fee generation (FX, Card spend, loan fees).

2B. SEGMENT BREAKDOWN

Segment	Advances (₹Cr)	YoY Growth	Yield (Q2)	Trend	vs Co Avg	Key Development
Wholesale	₹33,160	3%	9.2%	→	Lower	Focus on Commercial Banking (+17% YoY) over Corporate.
Credit Cards	₹17,538	17%	17.5%*	↓	Higher	Yields impacted by interest reversals on slippages.
Microfinance	₹6,971	3%	17.5%*	↓	Higher	Book contracted 4% QoQ due to cautious disbursals.
Housing Loans	₹7,447	56%	9.4%	↑	Lower	Rapid scaling; now 14% of retail mix vs 11% in PY.
Business Loans	₹8,837	6%	17.3%	→	Higher	Yields remain high; segment is 16% of retail mix.
Rural Vehicle Fin	₹2,279	58%	17.3%	↑	Higher	High-growth, high-yield secured segment.
Yields for Credit Cards and MFI are blended into a broader "Unsecured Retail" internal methodology yield of 17.5% for the quarter.						

3. MANAGEMENT OUTLOOK & EXECUTION TRACKER

Dimension	Category	Management Target / Claim	Required Run-Rate / Mathematical Feasibility	Historical Delivery (vs Q1)	Risk Flag
Guidance	RoA / RoE	FY26: 1.4-1.5% RoA / 14-15% RoE.	Current H1 RoA is 0.88%. Needs ~1.9%+ RoA in FY26. Highly unlikely.	Deteriorating	High
Guidance	Deposits Growth	20%+ CAGR.	Needs consistent ₹5,000 Cr+ quarterly growth. Current Q2 growth was ₹6,607 Cr.	Delivered	Low
Guidance	Granular Deposits	50%+ share.	Current 48.4%. Needs ~₹2,000 Cr incremental shift to granular.	On Track	Low
Guidance	Advances Growth	20%+ CAGR.	Current 15%. Needs faster secured retail ramp-up to offset wholesale drag.	Missed	Moderate
Strategy	Retail Mix	60-65% Retail.	Current 62%. Within target range.	Delivered	Low
Strategy	Sourcing Mix	Increasing Share of Direct Sourcing (Cards).	Direct sourcing in Cards up to 33.4% in Q2 vs 10.7% in Q1.	Delivered	Low
Macro	Unsecured Stress	"Near term stress" in unsecured retail.	Slippages must peak in Q2 for RoA recovery. H1 slippages = ₹1,657 Cr.	Missed	High

4. ANALYST Q&A

Section not applicable — investor presentation only. No concall conducted or available.

---

5. WHAT CHANGED vs PRIOR QUARTER

What Changed	Prior Quarter (Q1 FY25)	This Quarter (Q2 FY25)	Direction
Reported RoA	1.14%	0.64%	↓ Deteriorating
NIM (Reported)	5.67%	5.04%	↓ Deteriorating
Total Slippages	631 Cr	1,026 Cr	↓ Deteriorating
Unsecured Profitability	Positive contributor	-0.6% PBT RoA for H1 FY25	↓ Deteriorating
Deposit Momentum	CD Ratio was tightening (85.5%)	CD Ratio improved to 81.4%	↑ Improving
Sourcing (Cards)	Transitioning from Bajaj Finance	Direct sourcing increased to 33.4%	↑ Improving
Management Tone	Transition-led friction	Near-term stress / slippage reversals	↓ Cautious
MFI Growth	11% YoY Growth	3% YoY Growth (4% QoQ contraction)	↓ Strategic Pullback
Capital Adequacy	15.56% (Total)	15.9% (Total)	↑ Improving
Credit Costs	59bps (for the quarter)	80bps (for the quarter)	↓ Deteriorating

STOP HERE.