

RESEARCH

RBL BANK | TARGET: Rs 233 | +7% | HOLD

Upside capped; HOLD

AVALON TECHNOLOGIES | NOT RATED

Export-focused EMS player

Daily macro indicators

Indicator	11-Sep	12-Sep	Chg (%)
US 10Y yield (%)	4.29	4.28	(1bps)
India 10Y yield (%)	7.25	7.23	(2bps)
USD/INR	83.03	82.92	0.1
Brent Crude (US\$/bbl)	90.6	92.1	1.6
Dow	34,664	34,646	(0.1)
Hang Seng	18,096	18,026	(0.4)
Sensex	67,127	67,221	0.1
India FII (US\$ mn)	8-Sep	11-Sep	Chg (\$ mn)
FII-D	0.8	(78.1)	(78.9)
FII-E	(11.7)	177.0	188.6

Source: Bank of Baroda Economics Research

SUMMARY

RBL BANK

- Expect pickup in retail loans and newer products to aid a 19% credit CAGR over FY23-FY25, with deposit CAGR of 15%
- Retail-centric business could support margin gains but sticky operational cost likely to weigh on PPOP
- Upsides capped post rally; we assume coverage with HOLD and a TP of Rs 233 (0.9x FY25E ABV)

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AVALON TECHNOLOGIES

- Electronics, engineering and design manufacturer largely catering to export markets; US a key geography at ~55% of revenue (FY23)
- Offers a diverse product portfolio, including box build, PCBA, cable wire harness, aerospace metal and logistics
- FY24 India revenue to grow in line with industry at 35% while US sales to stay flat, per management

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HOLD

TP: Rs 233 | ▲ 7%

RBL BANK

| Banking

| 13 September 2023

Upside capped; HOLD

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Targeting growth via retail thrust, new products: RBK delivered an ostensibly strong Q1FY24 performance, but this came off a low base. While credit grew 21% YoY driven by the retail book, sticky operational and credit costs continued to weigh on profitability. Management is targeting a 20%+ credit CAGR over FY23-FY26, primarily from the credit card, microfinance and commercial loan segments, with support from its new home, gold and vehicle finance forays. Baking in competitive pressures, we model for a 19% credit CAGR through to FY25, along with a 15% deposit CAGR (after a muted 8% YoY print in Q1FY24 and 7.4% in FY23).

NIM to improve, C/I to remain high: NIM contracted 5bps QoQ in the first quarter to 4.6% on account of high-cost deposits, but management has guided for stronger 5% levels in FY24 and FY25. We expect a focus on the granular retail business to support margins, but are below guidance at ~4.7% in each of these years assuming a higher cost of funds. C/I ratio is likely to remain elevated during FY24 (66% in Q1), in line with management guidance. We model for a 19% NII CAGR through to FY25 with C/I holding at ~65% as the bank continues to pursue retail growth.

Asset quality steady: Asset quality has improved over the years but remains weaker than peers, with GNPA/NNPA at 3.2%/1% in Q1FY24. The restructured book stood at 1% of loans. Considering increased stress from the retail business, management has guided for credit cost of 1.5% over FY24-FY25, which is at the high end of the peer set. We conservatively factor in a 1.6% print.

HOLD, TP Rs 233: Baking in sticky operational costs, we forecast a PPOP CAGR of 24% over FY23-FY25, mainly benefiting from a low base, and believe provisioning would be a drag on net profit. The stock is trading at 0.8x FY25E ABV, having rallied 40% over the past three months. Accounting for RBK's growth and profitability matrix, wherein we estimate muted ROA/ROE of 1%/9% each for FY24/FY25, upsides look capped at current valuations. We thus assume coverage with a HOLD rating and value the stock at 0.9x FY25E ABV for a TP of Rs 233, based on the Gordon Growth Model.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	RBK IN/Rs 218
Market cap	US\$ 1.6bn
Free float	100%
3M ADV	US\$ 38.5mn
52wk high/low	Rs 251/Rs 108
Promoter/FPI/DII	0%/28%/18%

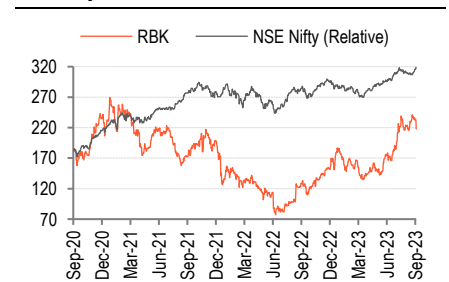
Source: NSE | Price as of 12 Sep 2023

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Net interest income	44,515	54,957	63,111
NII growth (%)	10.5	23.5	14.8
Adj. net profit (Rs mn)	8,827	12,038	14,076
EPS (Rs)	14.7	20.1	23.5
Consensus EPS (Rs)	14.7	20.1	25.5
P/E (x)	14.8	10.8	9.3
P/BV (x)	1.0	0.9	0.8
ROA (%)	0.8	1.0	1.0
ROE (%)	6.7	8.5	9.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



**NOT
RATED**
**AVALON
TECHNOLOGIES**

| Consumer Durables

| 13 September 2023

Export-focused EMS player

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We visited Avalon Technologies' (AVALON IN, Not Rated) plant at Chennai. Key takeaways:

Niche player with backward integration: Avalon is an export-focused electronics, engineering and design manufacturer that has carved a niche for itself through backward integration. The company has manufacturing plants for printed circuit board assembly (PCBA) and box build, cables, metals, plastics, and magnetics. The US is a key market for Avalon, accounting for ~55% of revenue in FY23.

Box build the primary revenue driver: Per management, box build contributes a bulk of the company's revenue at 50% (FY23) and earns slightly higher margins than PCBA. Besides box build and PCBA, Avalon's products and services include design, new product introduction (NPI), cable wire harness, sheet metal, aerospace metal, machining, magnetics, plastics, system integration and logistics.

H1 slow but management sees a better H2: Avalon saw a soft start to FY24 due to a slowdown in the US economy and anticipates a sluggish first half. However, management is optimistic on H2FY24 as it expects India revenue to grow 35%, in line with industry, and US performance to be flattish.

Three focus areas: The company indicated that it is focusing on clean energy, aerospace and hydrogen. Being sunrise segments, management is confident of sustaining a low-double-digit EBITDA margin over FY24-FY26.

Capacity expansion planned: Given large opportunities in the electronics manufacturing services (EMS) business, Avalon has earmarked capex of Rs 400mn to build two manufacturing units in Chennai by FY24. At present, the company has 10 facilities located in India (Chennai and Bengaluru) and 2 in the US.

Ticker/Price	AVALON IN/Rs 566
Market cap	US\$ 446mn
Free float	10%
52wk high/low	Rs 732/Rs 348
Promoter/FPI/DII	51%/13%/36%

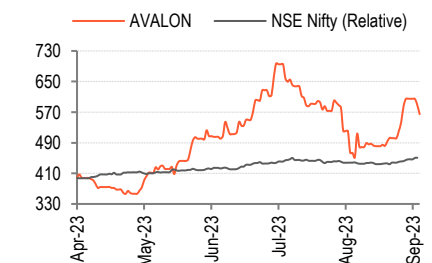
Source: NSE | Price as of 13 Sep 2023

Key financials

Y/E 31 Mar	FY21A	FY22A	FY23A
Total revenue (Rs mn)	6,905	8,407	9,447
EBITDA (Rs mn)	661	975	1,128
Adj. net profit (Rs mn)	231	675	525
Adj. EPS (Rs)	1.7	4.9	3.8
Consensus EPS (Rs)	1.7	4.9	3.8
Adj. ROAE (%)	146.0	116.9	16.8
Adj. P/E (x)	436.1	149.2	191.7
EV/EBITDA (x)	155.4	105.3	91.1
Adj. EPS growth (%)	87.3	192.3	(22.2)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



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SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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