RBL Bank Limited

October 03, 2022

Rating

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier-II Bonds	800.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Total long-term instruments	**800.00 (₹ Eight hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Tier-II Bonds under Basel III are characterised by a 'Point of Non-Viability' (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses and raising the Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Detailed rationale and key rating drivers

The rating continues to factors in the long track record of operations, healthy capitalisation levels supported by regular capital raising in the past, which has helped the bank to absorb possible contingencies owing to COVID-19-related stress and strong liquidity position. As the bank witnessed stress in its retail lending products, the bank is changing its focus on secured products and has de-grown in certain products leading to advances registering low growth of 2.39% during FY22 (refers to the period April 1 to March 31). The bank has seen increase in the franchise over the last few years and the bank has a focus towards improving granularity in deposits over the years has led to improvement in the proportion of Current Account Savings Account (CASA) and retail deposits.
The rating is constrained on account of moderation in asset quality parameters with high slippages in retail portfolio mainly in unsecured retail loan portfolio owing to COVID-19, which together with increase in provisioning coverage has resulted in the bank making higher amount of provisioning during Q1FY22, which has led to net loss in FY22.
The rating, further, constrained on account of higher operating cost on account of branch and franchise expansion as compared to peers.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Improvement in profitability with return on total assets (ROTA) over 1.5% on a sustained basis.
- Significant increase in size of total business along with geographical diversification of advances while maintaining comfortable capitalisation.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in capital adequacy ratio (CAR) below 14% or Tier-I CAR below 12% on a sustained basis.
- Decline in asset quality with net non-performing assets (NNPA) rising above 3.0% on a sustained basis.
- Decline in ROTA below 0.4% on a sustained basis.

Detailed description of the key rating drivers

Key rating strengths

Long track record with increase in franchise: RBL Bank was incorporated as in 1943 in Kolhapur (Maharashtra) and was accorded scheduled commercial bank status in the year 1959. It has been in operation for more than 70 years in the areas of Maharashtra and Karnataka. On December 25, 2021, Vishwavir Ahuja (MD &CEO) who were appointed from July 2010 went on leave with immediate effect and Rajeev Ahuja (Executive Director) was appointed as interim MD & CEO with immediate effect. The bank appointed R Subramaniakumar as MD & CEO from June 10, 2022 for period of 3 years. He is a veteran banker with 40 years of experience, and was an Executive Director at Indian Bank and Indian Overseas Bank. He also held the position of Managing Director & CEO of Indian Overseas Bank. The Reserve Bank of India (RBI) has appointed Yogesh K Dayal (Chief General Manager of RBI) as an additional director on board of directors of the bank for a period of 2 years w.e.f. December 24, 2021 till December 23, 2023, or till further orders, whichever is earlier.
The bank has put in place an experienced management team to head various functions. The bank has seen stable growth in business and has improved the franchise over the last decade. The bank's total business (advances + deposits) has grown at a compounded annual growth rate (CAGR) of 13.36% from ₹84,170 crore as on March 31, 2018 to ₹139,030 crore as on March 31, 2022.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

The deposit base of the bank has witnessed continuous increase in last five financial years ended FY22 owing to its focus on granularisation of its deposit base and increase in retail deposit and deposit base has grown at a CAGR of 15.82% from ₹43,902 crore as on March 31, 2018 to ₹79,007 crore as on March 31, 2022. Due to its focus on granularity of deposit, the bank has scaled up its CASA base in the last five years from around 24.32% as on March 31, 2018 to 35.29% as on March 31, 2022 and further, stood at 36% as on June 30, 2022.

Due to increase in CASA, the bank's cost of deposits for FY22 declined to 4.65% from 5.55% for FY21. The ability of the bank to granulise the deposit profile with improvement in the cost of funds is a key rating sensitivity.

The advances grew by around 2.39% during FY22 to ₹60,022 crore as on March 31, 2022 as compared with ₹58,623 crore as on March 31, 2021, as the bank de-grew its advances in the micro banking and unsecured business loans segments and shifted focus to secured products like housing loans and rural vehicles finance and further strengthened credit card advances.

Due to reduction in microbanking and unsecured business/ personal loans, as on March 31, 2022, wholesale advances constituted 48% of the total advances (41% as on March 31, 2021), while retail advance constituted 52% (59% as on March 31, 2021), whereas as on June 30, 2022, wholesale advance constituted 49% and retail advances constituted 51% of advances. The bank is on path of de-bulking and de-risking its wholesale book. The bank has plan to have a wholesale to retail mix of 35:65, as it continues to focus on the retail segment in the medium term.

Comfortable capital adequacy supported by capital raised over the period: The bank has demonstrated strong capital raising ability over the years which has helped the bank to maintain comfortable capitalisation levels despite the strong growth over the years. In November 2020, the bank raised equity capital (including premium) of ₹1,566 crore with an objective to strengthen its balance sheet, to meet any possible contingencies owing to COVID-19 and position the bank well for business opportunities. The bank has also raised Tier-II capital of ₹777 crore in May 2022 from U.S. International Development Finance Corporation.

The CAR stood comfortable at 16.82% with Core Equity Tier-I (CET I) Ratio of 16.21% as on March 31, 2022, as against CAR of 17.5% and CET I ratio of 16.64% as on March 31, 2021. The moderation in the capitalisation ratio were on account of loss reported during the Q1FY22. As on June 30, 2022, the bank reported CAR of 17.5% with CET I Ratio of 16%. The bank plans to maintain CAR of above 14% on a steady state basis.

Key rating weaknesses

Moderate asset quality indicators: During FY22 and in Q1FY23, the bank saw slippages in its retail book largely in segments like credit cards, micro banking which are unsecured products which were impacted significantly by COVID-19. The bank reported Gross NPA (GNPA) ratio of 4.40% and NNPA ratio of 1.34% as on March 31, 2022, as compared with GNPA ratio of 4.34% and NNPA ratio of 2.12% as on March 31, 2021. As on March 31, 2022, Standard Restructured Book stood at ₹1,461 crore constituting 2.43% of gross advances. The bank's NNPA to net worth ratio stood at 6.71% as on March 31, 2022 as compared with 10.13% as on March 31, 2021, although improved on account of capital infusion.

Furthermore, as on June 30, 2022, it has reported GNPA ratio and NNPA ratio moderated to 4.08% and 1.16%, respectively. The GNPA in wholesale and retail segments stood at 3.55% and 4.59%, respectively, as on June 30, 2022 as against 4.47% and 4.24%, respectively, as on March 31, 2021. The bank had provision coverage ratio (PCR) of 72.56% (without including technical write-offs) as on June 30, 2022 (March 31, 2021: 52.27%).

Considering the stress in retail segment, the bank has made total provision of ₹2,860 crore during FY22, which include ₹2,500 crore for NPAs and standard provision of ₹304 crore including ₹254 crore for restructured loans. Gross restructured advances stood at ₹1,790 crore as on June 30, 2022.

Moderation in profitability due to increase in credit costs: During FY21, the bank's total income increased by 2.37% to ₹10,516 crore from ₹10,272 crore in FY21 on account of increase in the non-interest income which offset to an extent by decrease in the interest income. During FY22, the interest income has declined on account of decline in higher yield micro banking and unsecured advances which were replaced by lower yield wholesale advances and decrease in yield on investments as the bank saw moderation in growth and shift towards better rated exposures.

The bank saw reduction in cost of deposits during FY22 with granularisation and increase in CASA deposit; however, the net interest margin (NIM) for FY22 declined to 3.91% from 4.01% for FY21.

The bank's pre provisioning operating profit (PPOP) decreased to ₹2,745 crore for FY22 as compared with ₹3,091 crore for FY21 and ₹2,714 crore for FY20. With higher amount of provisioning on account of slippages in retail segment and COVID-19-related stress, the bank reported loss of ₹75 crore for FY22 as compared to profit after tax (PAT) of ₹508 crore for FY21 and PAT of ₹506 crore for FY20. The bank has increased its provision coverage ratio from 52.3% as on March 31, 2021 to 70.4% as on March 31, 2022.

The bank reported profit from Q2FY22 and reported profit for last four quarters. For Q1FY23, the bank reported PAT of ₹201 crore on total income of ₹2,703 crore.

High operating cost: The bank has been in the growing phase of operations and increasing branch network over the last few years resulting higher operating costs. During FY21, with COVID-19-related slowdown in business, the bank contained its operating expenses resulting in cost to income of 47.13% for FY21 as compared with 51.00% for FY20. However, during FY22, the bank has increase it branches to 502 as on March 31, 2022 as compared with 429 as on March 31, 2021, and increase in number of employees to 9,257 as on March 31, 2022 as compared with 7,816 as on March 31, 2021, leading to increase in cost to income ratio to 56.88%.

Concentration risk; albeit improving: The deposit base of the bank is fairly concentrated on account of higher reliance on bulk deposits, as compared to larger peers, with top twenty depositors accounting for 17.21% of total deposit as on June 30, 2022 as compared with 16.56% of the total deposit as on March 31, 2022. However, the bank has plans to improve this by increasing the granular deposits.
Furthermore, the concentration in advances decreased during year with top 20 individual advances constituting around 10.37% as on March 31, 2022 as compared with 11.12% of total advances as on March 31, 2021, while the top 20 group exposures constituting around 17.85% as on March 31, 2022 as compared with 17.46% of total exposure as on March 31, 2021.

Liquidity: Strong
As per the asset liability maturity (ALM) profile as on June 30, 2022, the bank did not have negative cumulative mismatches in any time bucket up to 1 year. The average liquidity coverage ratio (LCR) of the bank for quarter ended June 30, 2022 stood at 149%. Furthermore, the bank has access to LAF and MSF facility in case of any liquidity requirements. As on June 30, 2022, the bank has maintained SLR of 37% as compared to minimum regulatory requirement of 18%.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios - Financial Sector
Rating Outlook and Credit Watch
Rating Basel III - Hybrid Capital Instruments issued by Banks
Bank

About the company

RBL Bank Limited is a Kolhapur-based small-sized private sector bank, which was incorporated in 1943 by Babgonda Patil, an advocate from Sangli, and Gangaram Chougule, a merchant from Kolhapur. The bank gained the status of a scheduled commercial bank in 1959. In FY11, the bank initiated a radical transformation in areas like ownership, management and organisation structure. Vishwavir Ahuja, ex-CEO of Bank of America for Indian sub-continent, took over as MD and CEO of RBL in June 2010. In FY11, the shareholding structure underwent a change with capital infusion of ₹727 crore from a host of private equity funds. There has been regular capital infusion in the bank to fund its growth in the last five years. As on March 31, 2022, the bank had a network of 502 branches, 1,418 business correspondence and 414 ATMs in the country.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23(UA)
Total operating income	10,272	10,516	2,703
PAT	508	-75	201
Total Assets	100,651	106,209	107,732
Net NPA (%)	2.12	1.34	1.16
ROTA (%)	0.54	-0.07	0.75*

A: Audited UA: Unaudited *Annualised

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Bonds-Tier-II Bonds	Proposed	-	-	-	800.00	CARE AA-; Stable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Bonds-Tier-II Bonds	-	-	-				
2	Bonds-Tier-II Bonds	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (31-Dec-21) 2)CARE AA-; Stable (06-Oct-21)	1)CARE AA-; Stable (08-Oct-20)	1)CARE AA-; Stable (09-Oct-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Bonds-Tier-II Bonds	Complex

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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