RBL Bank Limited

March 21, 2024

Facilities/Instruments@	Amount (₹ crore)	Rating[1]	Rating Action
Tier II bonds	800.00	CARE AA-; Stable	Reaffirmed
Certificate of deposits	6,000.00	CARE A1+	Assigned

@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.

Rationale and key rating drivers

Assignment of the rating for certificate of deposits and reaffirmation of Tier II Bonds of RBL Bank Limited (RBL Bank) factor in bank's long track record of operations, healthy capitalisation levels supported by regular capital raising in the past, and improvement in financial performance of the bank during FY23 & 9MFY24 due to increase in the net interest margin and moderation in credit costs. The bank also has been working towards increasing the granularity in deposits over the years, which has led to the improvement in the proportion of retail deposits, although the dependence on bulk deposits remains relatively high leading to the higher cost of funds. The rating is constrained on account of high operating cost, moderate asset quality parameters, moderate-but-improving profitability, and relatively higher reliance on bulk deposits. CARE Ratings Limited (CARE Ratings) notes that the bank's ability to improve- the proportion of current account saving account (CASA) and retail deposits, increase secured retail loans percentage in the total portfolio, and improve asset quality parameters will remain key for its performance.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- Decline in capital adequacy ratio (CAR) with cushion over the minimum regulatory requirement falling below 3%.
- Decline in asset quality with net non-performing assets (NNPA) ratio above 3.0% on a sustained basis.
- Decline in profitability with ROTA below 0.5% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook is on account of improvement in the performance, retail and wholesale mix, proportion of retail deposits of the bank during the year which is expected to continue in the near term and improvement in the asset quality parameters of the bank.

Detailed description of key rating drivers:

Key strengths

Long track record with increase in franchise

RBL Bank was incorporated in 1943 in Kolhapur (Maharashtra) and was accorded scheduled commercial bank status in 1959. It has been in operation for more than 70 years in Maharashtra and Karnataka. The bank's franchise is spread across the country with a network of 538 branches as on December 31, 2023. The bank's total business (advances + deposits) stood at ₹1,72,695 crore as on December 31, 2023.The bank's advances book grew from ₹70,209 crore as on March 31, 2023, to ₹79,949 crore as

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

on December 31, 2023. Of the total advances, around 58% were retail advances including products such as credit cards and personal loans (24%), business loans (9%), microfinance loans (9%) and housing loans (8%), while 42% were wholesale advances (corporate and institutional banking being 31% and commercial banking being 11%) as on December 31, 2023.

The bank's deposit base witnessed continuous increase, owing to its focus on granularization. Total deposits increased from ₹84,887 crore as on March 31, 2023, to ₹92,746 crore as on December 31, 2023. The proportion of retail term deposits, defined as term deposits upto Rs. 2 crore, in the overall term deposits of the bank increased from 33% as on March 31, 2022 to 41% as on December 31, 2023. With customers switching to term-deposits considering increasing rates, which is observed across banks, the bank's CASA proportion in total deposits has been impacted and has fallen from 37.36% as on March 31, 2023, to 33.79% as on December 31, 2023. CARE Ratings notes that the bank's ability to further granulise its deposit profile with improving cost of funds is a key to improve its deposit profile.

The bank's board of directors is headed by Prakash Chandra, non-executive part-time Chairman. He is an advocate and a member of the High Court and Supreme Court Bar Associations. He has served 38 years as an Indian Revenue Officer at the Indian Revenue Service (IRS) with the Government of India. The bank's operations are headed by R Subramaniakumar, MD and CEO from June 23, 2022, for a period of three years. He is a veteran banker with 40 years of experience. The bank has an experienced management team to head different functions.

Comfortable capital adequacy supported by capital raised over a period

The bank demonstrated strong capital-raising ability over the years, which helped it maintain comfortable capitalisation levels despite the strong growth over the years. The bank raised equity capital (including premium) of ₹1,566 crore in November 2020 to strengthen its balance sheet and meet possible contingencies owing to COVID-19 and position the bank well for business opportunities. This helped the bank maintain adequate capitalisation levels, while it witnessed increased provisioning in the pandemic. In May 2022, the bank raised Tier-II capital of US$100 million from the U.S. International Development Finance Corporation. The bank reported CAR of 16.42% (March 31, 2023: 16.92%) with Common Equity Tier-I (CET I) ratio of 14.58% as on December 31, 2023 (March 31, 2023: 15.25%). The reduction in the ratios is attributable to the increase in the risk weights of credit cards, personal and NBFC loans as per the revised RBI guidelines. CARE Ratings expects the bank to maintain CAR of 14% on a steady state basis, which would help the bank fund its advances growth.

Key weaknesses

Moderate asset quality indicators

The bank witnessed an improvement in asset quality parameters during FY23 and 9MFY24. The gross NPA (GNPA) ratio and NNPA ratio of the bank reduced to 3.12% and 0.80%, respectively, as on December 31, 2023, from 4.40% and 1.34% as on March 31, 2022, respectively, owing to write-offs and reduction in slippages. Despite improvements, the ratios remain high when compared to peers. The bank's slippages in 9MFY24 were ₹1,762 crore (9MFY23- ₹2073 crore). The slippages were mainly in the bank's unsecured high yielding retail book (credit cards and micro loans), which constituted 33% of the bank's overall advances as on December 31, 2023. Since these loans are susceptible to economic downturns, the bank's ability to keep slippages low will be key for its overall asset quality parameters and profitability. The bank had provision coverage ratio (PCR) of 75.1% (excluding technical write-offs) as on December 31, 2023 (March 31, 2022: 70%).

Sustenance in the profitability to be monitored

In 9MFY24, the bank reported an increase in the ROTA to 0.89% (excluding contingent provision on AIF investments ROTA was 1.01% for 9M FY24) on account of increase in NIM due to rise in yield on advances with change in its business mix. It also witnessed an increase in non-interest income in 9MFY24 to ₹2167 crore (9MFY23: ₹1815 crore). However, high operating expenses and rise in credit costs continued to hinder profitability. In 9MFY24, the bank's credit cost increased to 1.5% (annualised) from 0.92% in FY23 on account of contingency buffer (@1% on credit cards and microfinance institution [MFI]) of ₹262 crore maintained by the bank, additional provisioning done due to policy change in credit cards of ₹48 crore, and provisioning done on AIF of ~₹115 crore in line with RBI's guidelines. The cost to income ratio of the bank though slightly rationalised in 9MFY24 to ~67% from ~71%, continues to remain high. Thus, the bank's ability to maintain NIM margin amidst increasing cost to deposit ratio, reduce operating expense and control credit cost remains critical for improving its profitability.

High operating cost

The bank's operating expenses have been increasing y-o-y, as it is in its growth phase of operations. Operating expenses are majorly driven by business acquisition cost, which includes cost incurred for sourcing new cards, tractor loans, home loans, and microfinance among others, marketing spends on products and expansion of teams. Branches of the bank increased from 517 branches as on March 31, 2023 to 538 branches as on December 31, 2023. Going forward, CARE Ratings observes that as the bank has plans of adding 50-75 branches annually over the next three years, its operating expense is expected to remain high.

Concentration risk in deposits with improvement

The top 20 depositors of the bank accounted for 16.23% of total deposit as on March 31, 2023 (as on March 31, 2022: 16.56%). While the bank has been focusing on granularizing its deposit base, the percentage of the bulk deposits, defined as total deposits > Rs. 2 crore, though on declining trend, stood high at 55.5% as on December 31, 2023 (62.5% as on March 31, 2022).

Liquidity: Adequate

As on December 31,2023, the asset liability mismatch of the bank remains comfortable with positive cumulative mismatches till six months' time bucket. The bank has maintained average liquidity coverage ratio (LCR) of 132% for Q3FY24 as against a minimum LCR requirement of 100%.

Environment, social, and governance (ESG) risks

The bank has an Environmental and Social Risk Governance (ESG) Committee, which oversees implementation of ESG, which is its response to material environmental and social issues, including sustainability policy implementation. The bank conducts an extensive E&S risk assessment process, screening large corporate lending and project financing transactions against their 'exclusion list', which prohibits funding for weapons, alcoholic beverages (excluding beer and wine), tobacco, gambling, and similar activities. This assessment applies to wholesale transactions with exposure exceeding US$ 5 million and a tenure of over 12 months, other than those industries falling under the Central Pollution Control Board Red List, for which threshold is US$ 1 million. If identified, the bank collaborates with clients to develop a Corrective Action Plan (CAP) to mitigate risks, which is incorporated into the sanction letter and closely monitored. Unmitigated or residual risks are escalated to top management for resolution.

Applicable criteria

Definition of Default
Financial Ratios - Financial Sector
Rating Outlook and Rating Watch
Short Term Instruments
Bank
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macro-economic indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Private Sector Bank

RBL Bank Limited (erstwhile Ratnakar Bank) is a Kolhapur-based small-sized private sector bank, incorporated in 1943. The bank was established by Babgonda Patil, an advocate from Sangli, and Gangaram Chougule, a merchant from Kolhapur. Its primary aim was to cater to banking requirements of low- and middle-income segment engaged in trade and commerce. The bank gained the status of a scheduled commercial bank in 1959. Its total business book stands at ₹1,72,695 crore as on December 31, 2023. As on December 31, 2023, its operations are spread across 538 branches with 310 branches solely in metro cities. The bank's business correspondence branches stood at 1,217 as on December 31, 2023, of which 897 branches were of RBL Finserve Limited (RFL) a wholly owned subsidiary of RBL Bank.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-03-2023 (A)	31-12-2023 (UA)
Total operating income	10,272	10,516	12,165	11,222
PAT	508	-75	883	815*
Total assets	99,662	1,05,614	1,15,897	1,27,146
ROTA (%)	0.54%	-0.07%	0.80%	0.89%
Net NPA (%)	2.12	1.34	1.10	0.8

A: Audited UA: Unaudited; Note: 'these are latest available financial results'

*Excluding Contingent provision on AIF Investments, PAT for 9MFY24 was Rs. 902 crores.

Status of non-cooperation with previous CRA:
Not applicable

Any other information: Not applicable

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

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

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

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	-	04-Oct-2018	Proposed	Proposed	800.00	CARE AA-; Stable
Certificate of deposits (proposed)	-	-	-	-	6000.00	CARE A1+

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 2023-2024	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
1	Bonds-Tier II Bonds	LT	800.00	CARE AA-; Stable	1)CARE AA-; Stable (27-Sep-23)	1)CARE AA-; Stable (03-Oct-22)	1)CARE AA-; Stable (31-Dec-21) 2)CARE AA-; Stable (06-Oct-21)	1)CARE AA-; Stable (08-Oct-20)
2	Certificate Of Deposit	ST	6000.00	CARE A1+	-	-	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex
2	Certificate of deposits	Simple

Annexure-5: Lender details

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

Note on the 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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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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