

## RBL Bank Ltd

October 08, 2018

### Rating

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Remarks
Tier II Bonds (Basel III)	800 (Rupees Eight Hundred crore only)	<b>CARE AA-; Stable</b> <b>(Double A Minus; Outlook: Stable)</b>	<b>Reaffirmed</b>

*Details of instruments/facilities in Annexure-1*

Tier II Bonds under Basel III are characterized 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 & Key Rating Drivers

The rating assigned to debt instruments of RBL Bank (erstwhile Ratnakar Bank Limited) continues to take into account the experienced management, comfortable capital adequacy, long track record of operations, adequate profitability and comfortable asset quality. The rating remains constrained by the small scale of operations and geographical concentration, high operating cost on account of branch and franchise expansion, unseasoned loan book given the robust growth in last few years, relatively low proportion of Current Account Saving Account (CASA) deposits and reliance on bulk deposits, moderate liquidity profile and depositor concentration.

Capital adequacy, asset quality, profitability, granularity in deposit base and liquidity profile are the key rating sensitivities.

### Detailed description of the key rating drivers

#### Key Rating Strengths

##### Experienced management

RBL underwent radical transformation in FY11 (refers to period from April 01 to March 31) with the management team being revamped with experienced professionals occupying key managerial positions. Mr. Vishwavir Ahuja, ex-Managing Director and Chief Executive Officer (MD & CEO) of Bank of America (Indian subcontinent), with a banking experience of more than 29 years, became the MD and CEO of RBL Bank in June 2010. He is assisted by experienced having experience in the financial sector. The various departmental heads have more than 20 years of experience in areas like consumer banking, risk management, treasury and relationship management.

##### Comfortable capital adequacy

The bank has comfortable capitalization levels despite the strong growth over the years, owing to regular capital infusion. The bank raised Rs.1,213 crore through its Initial Public Offer (IPO) of equity shares in FY17, out of which Rs.832.50 crore was through the issue of fresh equity shares and Rs.380.46 crore in an offer for sale by existing shareholders. In September 2016, the bank raised Rs.330 crore from the UK-based development finance institution, CDC Group Plc (CDC), through Basel III compliant Tier II capital. During FY18, the bank raised additional equity capital of Rs.1,680 crore through private placement to set of marquee investors like CDC Group Plc, Multiples Alternate Asset Management, HDFC Standard Life Insurance Company, Global IVY Ventures, ICICI Lombard General Insurance Company and Steadview Capital in August 2017 which further strengthened its equity base. The bank reported Capital Adequacy Ratio (CAR) (Basel III) stood at 15.33% [P.Y.: 13.72%] with Tier I CAR (comprised entirely of Common Equity Tier I; CET I) of 13.61% [P.Y.: 11.39%] as on March 31, 2018. As on June 30, 2018, the bank's CAR stood at 14.6% with Tier I CAR (entirely CET I) at 13.1%.

##### Comfortable asset quality

Asset quality of the bank continued to remain comfortable with Gross NPA ratio of 1.40% [P.Y.: 1.20%] and Net NPA ratio of 0.78% [P.Y.: 0.64%] as on March 31, 2018. The bank's Net NPA to net worth stood at 4.80% [P.Y.: %] as on March 31, 2018. However, in absolute terms, Gross NPAs increased from Rs.357 crore by the end of March 2017 to Rs.567 crore at the end of FY18. In FY18, gross NPAs peaked in the Agri segment as a consequence of demonetization, farm loan waiver, and sharp drop in commodity prices coupled with the drought in few areas of Maharashtra and Karnataka. The Gross NPA in this portfolio has increased to 4.15% at the end of FY18 as against 2.89% at the end of 9MFY18. As a result, the bank

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

resorted to a cautious approach in the segment, reducing the share of agri advances from 7% to under 5% at the end of FY18. As at the end of June 2018, RBL reported Gross NPA Ratio of 1.40% and Net NPA Ratio of 0.75%. Its Net NPA to Net worth ratio stood at 4.69%.

#### **Adequate profitability**

During FY18, the bank's total income grew 25% over FY17 supported by a 41% growth in non-interest income, and 21% increase in interest income owing to a 37% growth in advances. Due to decline in the cost of deposits, net interest income increased 45% to Rs.1,766 crore. Consequently, NIM improved to 3.20% [P.Y.: 2.78%]. With growth in loan portfolio, the bank's cost to income ratio declined to 53.04% for FY18 from 53.44% for FY17, leading to a 42% growth in net profit. As a result, the bank's ROTA improved to 1.15% [P.Y.: 1.02%]. In Q1FY19, the bank earned a net profit of Rs.190 crore on a total income of Rs.1,690 crore. The bank had an MTM loss of Rs.24 crore in Q1FY19 which it fully provided for without availing RBI's dispensation in respect of the same.

#### **Key Rating Weaknesses**

##### **High operating cost**

The bank's operating cost is higher in comparison to its peers, which is reflected by the high cost to income ratio of 53.04% [P.Y.: 53.44%]. With further expansion in business, operating cost may take some time to stabilize. The cost to income ratio of the bank further improved to 50.80% in Q1FY19.

##### **Relatively unseasoned advances book**

The bank's advances have grown at a CAGR of 40.7% from the end of FY15 to FY18. During FY18, loan book of the bank grew at a robust pace of 37% with the wholesale advances growing 33% (y-o-y) while the non-wholesale advances growing at 42%. Within the wholesale book, Corporate & Institutional Banking grew 32% year-on-year and Commercial Banking grew 36%. In the non-wholesale book, retail assets grew by 66% while the Development Banking & Financial Inclusion book grew by 38%. Further, in Q1FY19, the bank's loan book grew by 4.8% over March 2018 levels. Due to this rapid pace of growth, the loan book is relatively unseasoned and the asset quality of the newly grown book is yet to be seen.

##### **Relatively low CASA proportion and concentration in deposits**

The bank's CASA proportion is low in comparison to its peers with a CASA ratio of 24.42% as on June 30, 2018. The deposit base is also fairly concentrated with top twenty depositors accounting for 18.34% of total deposits as on June 30, 2018, although the same has reduced from 20.72% at on June 30, 2017. Retail deposits of the bank constitute around 30% of the bank's total deposits.

##### **Geographical concentration**

RBL Bank's business is mainly concentrated in the regions of Maharashtra and Delhi. Maharashtra and Delhi regions accounted for 25.3% and 21.9% advances respectively, as on June 30, 2018. Any adverse economic environment in these geographies will negatively impact the business of RBL. However, as part of the bank's strategy to achieve geographical diversification, the bank's business in the micro-banking space is spread across 19 states with no single state contributing more than 15% to 17% of advances book.

**Analytical approach:** Standalone

##### **Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE Policy on Default Recognition](#)

[Bank - CARE's Rating Methodology For Banks](#)

[Financial ratios - Financial Sector](#)

##### **About the Company**

RBL Bank Limited is a Kolhapur-based small sized private sector bank which was incorporated in 1943 by Shri Babgonda Patil, an advocate from Sangli and Shri Gangaram Chougule, a merchant from Kolhapur. The bank gained the status of a scheduled commercial bank in 1959. In FY11, the bank underwent a radical transformation in areas like ownership, management and organization structure. Mr. Vishwavi 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 Rs.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. Further Bank also raised capital of Rs.832.5 crore through the issue of fresh equity shares vide its IPO in August 2016. During FY18, the bank further raised equity capital of Rs.1,680 crore through a private placement to set of marquee investors. As on March 31, 2018, the Bank had a network of 266 branches, all the branches are under Core Banking Solution and 369 ATMs in the country.

Brief Financials (Rs. Crore)	FY17 (A)	FY18 (A)
Total Income	4,469	5,576
PAT	446	635
Total Assets	48,585	61,715
Net NPA (%)	0.64	0.78
ROTA (%)	1.02	1.15

A: Audited

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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## Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Bonds-Tier II Bonds – Proposed	-	-	-	800.00	CARE AA-; Stable

## Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Bonds-Tier II Bonds	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-17) 2)CARE AA-; Stable (11-Apr-17)	-	1)CARE AA- (29-Feb-16)

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