RBL Bank Ltd

October 09, 2019

Rating

Instrument	Amount (Rs. crore)	Rating[1]	Remarks
Tier II Bonds (Basel III)	800 (Rupees Eight Hundred crore only)	**CARE AA-; Stable (Double A Minus; Outlook: Stable)**	**Reaffirmed**

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 and long track record of operations and established franchise, demonstrated capital raising ability which has helped the bank maintain comfortable capital adequacy while growing its advances, adequate profitability, stable scale-up of business. The rating remains constrained by high operating cost on account of branch and franchise expansion, moderation witnessed in the asset quality, 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 geographical 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 and long track record

RBL Bank (erstwhile Ratnakar Bank Limited) 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. In FY11 (refers to period from April 01 to March 31), the bank underwent radical transformation in FY11 with the management team being revamped with experienced professionals occupying key managerial positions. Mr. Vishwavir Ahuja was appointed as the Managing Director & Chief Executive Officer (MD & CEO) w.e.f. July 2010. Mr. Ahuja is a veteran in the banking industry with close to 35 years of experience. He is ex MD & CEO of Bank of America (Indian subcontinent).The bank has put in place an experienced management team to head various functions. The Board of Directors of the bank is headed by Mr. Prakash Chandra (Non-Executive Part Time Chairman) who has served 38 years as an Indian Revenue Officer at the Indian Revenue Service (IRS) in the Government of India and is now an Advocate and a member of the High Court and Supreme Court Bar Associations. He has also been an advisor to the Union Public Service Commission and Department of Personnel Government of India. Mr. Rajeev Ahuja, Executive Director, has over 30 years of experience in the financial services industry and prior to joining RBL Bank was heading the investor sales business (South Asia) with Citigroup, India. He also has experience with the capital markets and investment banking divisions of Deutsche Bank in Asia.

Stable scale-up of business

Subsequent to takeover by the new management, the bank has seen stable growth in business. The bank's total business (advances + deposits) has grown at a CAGR of 63.14% from Rs.2,254 crore in FY11 to Rs.113,085 crore by the end of March 2019 and further to Rs.118,065 crore as on June 30, 2019. The bank has also scaled up its CASA base in the last four years from around 18.50% as on March 31, 2015 to 25.80% as on June 30, 2019. Further, the bank has increased its franchise with a branch network of 332 branches (own) and 1,013 business correspondents (BC) branches with a customer base of over 6.9 million as on June 30, 2019.

Comfortable capital adequacy

The bank has demonstrated strong capital raising ability over the three years which has helped the bank maintain comfortable capitalization levels despite the strong growth over the years. The bank raised Rs.1,213 crore through its

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

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. During FY18, the bank raised Rs.1,680 crore of equity capital by way of QIP issue from marque investors. As on March 31, 2019, the bank reported capital adequacy ratio (CAR) of 13.46% with Tier I CAR (comprising entirely of Common Equity Tier I; CET I) of 12.10%. The bank reported CAR of 12.40% with Tier I CAR (entirely CET I) of 11.30% as on June 30, 2019.

Adequate profitability

During FY19, the bank's total income grew 38.9% to 7,743 crore from Rs.5,576 crore for FY18, supported by a growth of 39.8% in interest income owing to a 34.9% growth in net advances. Non-interest income recorded a growth of 35.0% in FY19, primary on account of growth in trading income. The bank's NIM improved to 3.58% [P.Y.: 3.20%] owing to the growth the in interest income coupled with continued pass-through of MCLR increases and changing mix in favor of non-wholesale businesses. Provisions increased by 76% in FY19 majorly driven by slippages in credit card portfolio and Agri portfolio. Bank reported Profit After Tax (PAT) of Rs.867 crore in FY19 against PAT of Rs.635 crore in FY18. As a result, the bank's Return on Total Assets (ROTA) marginally improved to 1.22% [P.Y.: 1.15%] in FY19. In Q1FY20 (refers to period from April 01 to June 30), the bank reported PAT of Rs.267 crore on a total income of Rs.2,504 crore.

Key Rating Weaknesses

Moderate funding profile, relatively lower CASA proportion and concentration in deposits

The bank total deposits grew by 33% during FY19 to reach Rs.58,394 crore as on March 31, 2019 and Rs.60,811 crore as on June 30, 2019, recording seen stable growth. Savings account deposits recorded a growth of 54% in FY19 and constituted 14% of CASA deposits as on March 31, 2019 [P.Y.: 12%]. The bank's CASA proportion stood at 25.80% as on June 30, 2019 as compared to 24.30% as on March 31, 2018 and has increased substantially from 18.60% as on March 31, 2016. However, the bank's CASA proportion was relatively low. The deposit base is also fairly concentrated on account of higher reliance on bulk deposits, with top twenty depositors accounting for 18.41% of total deposits as on March 31, 2019, although the same has reduced from 19.27% as on March 31, 2018.

High operating cost

The bank's operating cost, albeit on a decline, is higher in comparison to its peers, which is reflected by the high cost to income ratio of 51.28% [P.Y.: 53.04%]. With further expansion in business, operating cost may take some time to stabilize. The cost to income ratio of the bank further improved to 52.35% in Q1FY20.

Moderate asset quality indicators

RBL's total advances recorded a growth of 34.9% y-o-y and stood at Rs.54,308 crore as on March 31, 2019, largely driven by growth in the bank's Non-Wholesale loans segment. Non-Wholesale Assets grew by 49.4% to Rs.24,079 crore as on March 31, 2019, while Wholesale Assets recorded a growth of 25.2% y-o-y and stood at Rs.30,229 crore as on March 31, 2019. Within the Non-Wholesale segment, Retail Assets recorded a growth of 57.8% y-o-y to Rs.16,468 crore as on March 31, 2019, majorly driven by growth of 135.4% in the bank's Credit Card portfolio and 55.1% growth in the bank's Loan Against Property (LAP) portfolio. Non-Wholesale loans constitute 44.3% (P.Y.: 40.0%) of Total Advances as compared, while Wholesale loans constitute the balance 55.7% as on March 31, 2019.

Asset quality of the bank continued to remain comfortable with Gross NPA (%) and Net NPA (%) at 1.38% [P.Y.: 1.40%] and 0.69% [P.Y.: 0.78%], respectively as on March 31, 2019. The bank's Net NPA to net worth stood at 5.08% [P.Y: 4.80%]. However, in absolute terms, Gross NPA increased by 33.2% to Rs.755 crore as on March 31, 2019 from Rs.567 crore as on March 31, 2018. The increase in Gross NPA was largely driven by increase in NPA in Retail Assets due to certain unexpected events such as farm loan waiver announcements which led deterioration in Agri portfolio.

As on June 30, 2019, RBL reported Gross NPA Ratio of 1.38% and Net NPA Ratio of 0.65%. Its Net NPA to Net worth ratio stood at 4.88%. Gross NPAs in the construction sector constituted around 11.4% of the bank's total gross NPAs and 6.8% of the bank's gross NPA was from the food processing. Bank reported slippage ratio of 0.41% as on March 31, 2019 as compared to 0.31% as on March 31, 2018 largely driven by slippages in the card portfolio. The bank saw a rise in 'BB and below' rated borrowers from 5.9% of the portfolio as on March 31, 2019 to 7% as on June 30, 2019. The bank has identified certain stressed corporate accounts which may impact the asset quality parameters in the current financial year. Any slippages over those anticipated, would be a key rating sensitivity.

Relatively unseasoned advances book

In FY19, loan book of the bank grew at a robust pace of 34.9% over March 2018 levels. The bank's advances have grown at a CAGR of 39.2% from the end of FY15 to FY19. In FY19, the bank's advances grew 34.9% y-o-y with wholesale and non-wholesale businesses growing 25% and 49% respectively. Within the wholesale book, Corporate & Institutional Banking grew 32% year-on-year and Commercial Banking grew 12%. In the non-wholesale book, retail assets grew by 58% while the Development Banking & Financial Inclusion book grew by 34%. Further, in Q1FY20, the bank's loan book grew by 4.66% over March 2019 levels. Due to this rapid pace of growth, the loan book is relatively unseasoned and has to see the test of times.

Moderate liquidity profile

As per the ALM statement of June 30, 2019 the bank faces negative cumulative mismatches in the 6 months to 1 year time bucket. 65% of deposits mature till the one year time bracket and as compared to that only 50% of advances get repaid. However, the bank typically maintains 3-4% in excess of SLR and has a deposits rollover rate of 80-90%. On an average, the bank had Rs.1,909 crore of Government securities in excess of SLR in FY19. The average LCR of the Bank as on June 30, 2019 was 136.57%. Further the bank has access to LAF and MSF facility in case of any liquidity requirements.

Concentration Risk

RBL's business is mainly concentrated in the regions of Delhi and Maharashtra. Delhi and Maharashtra regions accounted for 24.9% and 24.0% advances respectively, as on June 30, 2019. Any adverse economic environment in these geographies will negatively impact the business of RBL. As part of the bank's strategy of geographical diversification, the bank's business in the micro-banking space is spread across 20 states with no single state contributing more than 15% of advances book.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE Policy on Default Recognition
Bank - CARE's Rating Methodology For Banks
Financial ratios - Financial Sector

Liquidity – Adequate

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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. 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 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 through its IPO in August 2016. In FY18, the bank further raised equity capital of Rs.1,680 crore through a private placement to set of marquee investors. During the fiscal FY19, the Bank had raised capital to the tune of Rs.100.54 crore through exercise of stock options by the employees of the bank As on March 31, 2019, the Bank had a network of 332 branches, all the branches are under Core Banking Solution and 376 ATMs in the country.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (A)
Total Income	5,576	7,743
PAT	635	867
Total Assets	61,715	80,148
Net NPA (%)	0.78	0.69
ROTA (%)	1.15	1.22

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

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Bonds-Tier II Bonds	-	-	-	-	-	-	-
2.	Bonds-Tier II Bonds	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA-; Stable (05-Oct-17) 2)CARE AA-; Stable (11-Apr-17)	-

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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