RBL Bank Ltd.

October 08, 2020

Ratings

Instrument	Amount (Rs. crore)	Rating[1]	Rating Action
Tier II Bonds (Basel III)	800.00 (Rs. 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 continues to take into account the experienced management and long track record of operations, healthy capitalisation levels, the bank's demonstrated capital raising ability which has helped the bank maintain comfortable capital adequacy while growing its advances, adequate profitability, comfortable liquidity, stable scale-up of business over the last few years.

The rating remains constrained by moderation in asset quality parameters with slippages in wholesale advances portfolio, relatively higher operating cost on account of branch and franchise expansion as compared to peers, unseasoned loan book given the robust growth in last few years with increase in unsecured proportion of loan portfolio with focus on retail lending, relatively low proportion of Current Account Saving Account (CASA) deposits and reliance on bulk deposits and concentration risk in advances.

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

<u>Rating Sensitivities</u>

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

- Improvement in profitability with ROTA over 1.5% on a sustained basis
- Decline in Gross NPA ratio below 2.5% on a sustained basis
- Increase in CASA to over 35% on a sustained basis
- Increase in size of total business along with geographical diversification of advances

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

- Decline in CAR below 12.5% or Tier I CAR below 9.5% on a sustained basis
- Decline in asset quality with GNPA rising above 5% on a sustained basis

Decline in ROTA below 0.4% on a sustained basis

COVID-19 Impact

In line with the RBI's regulatory package, the bank had provided moratorium to its eligible borrowers on payments of installments/interest falling due between March 01, 2020 and May 31, 2020 and were classified as standard even if overdue on February 29, 2020. Further, in line with the RBI guidelines announced on May 23, 2020, the bank granted the second three month moratorium on loan payments due between June 01, 2020 and August 31, 2020 (As on June 30, 2020, around 13.7% of the bank's overall book was under moratorium as compared to 33% of total advances as April 30, 2020. For all such accounts, the asset classification shall standstill till the end of moratorium. Around 5% of the wholesale and around 30% of non-wholesale book was under moratorium as on June 30, 2020. The bank has made Covid-19 related provision of Rs.110 crore during the last quarter of FY20 (refers to period from April 01 to March 31) and additional provision of Rs.240 crore during Q1FY21 (refers to period from April 01 to June 30) which was in excess of the minimum regulatory requirement of 10%. The bank has provided for about 10% of the credit card book under moratorium.

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

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 38 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 34 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 with increase in franchise

Subsequent to takeover by the new management, the bank has seen stable growth in business and has improved the franchise over the last few years. The bank's total business (advances + deposits) has grown at a CAGR of 45.57% from Rs.3,947 crore in FY11 to Rs.115,831 crore by the end of March 2020 and further to Rs.118,419 crore as on June 30, 2020. The bank has also scaled up its CASA base in the last five years from around 18.50% as on March 31, 2015 to 30.07% as on June 30, 2020. In FY20, the bank's advance growth rate dropped to 6.83% as the bank continues to de-grow its non-wholesale book and to focus on retail segment. Further, the bank has increased its franchise with a branch network of 392 branches (own) and 1,221 business correspondents (BC) branches with a customer base of over 8.44 million as on June 30, 2020.

Comfortable capital adequacy and demonstrated capital raising ability

The bank has demonstrated strong capital raising ability over the years which has helped the bank maintain comfortable capitalization levels despite the strong growth over the years. The bank raised Rs.2,701 crore of equity capital by way of QIP and preferential allotment to marque investors. As a result, the bank reported capital adequacy ratio (CAR) of 16.45% (PY: 13.46%) with Tier I CAR (comprising entirely of Common Equity Tier I; CET I) of 15.33% (PY: 12.10%) as on March 31, 2020. The bank reported CAR of 16.40% with Tier I CAR (entirely CET I) of 15.20% as on June 30, 2020. The bank has recently announced an equity capital raise of Rs.1,566 crore by way of preferential allotment of shares, which will take the total CAR to 18.60% and Tier I CAR to 17.40% (based on June 30, 2020 results).

Adequate profitability

During FY20, the bank's total income grew 34.63% to Rs.10,425 crore from Rs.7,743 crore for FY19, supported by a growth of 35.13% in interest income owing to a improved yield on advances. Non-interest income recorded a growth of 32.44% in FY20, primary on account of growth in fee income. The bank's NIM improved to 4.30% [P.Y.: 3.58%] owing to the growth in interest income coupled with continued pass-through of MCLR increases and changing mix in favor of non-wholesale businesses. The bank's pre-provision operation profit (PPOP) of Rs.2,752 crore during FY20 as compared to Rs.1,940 crore during FY19. Provisions increased steeply in FY20, majorly driven by slippages in the corporate book. The bank reported Profit After Tax (PAT) of Rs.506 crore in FY20 against PAT of Rs.866 crore in FY19. As a result, the bank's Return on Total Assets (ROTA) declined to 0.60% [P.Y.: 1.22%] in FY20. In Q1FY21 , the bank reported PAT of Rs.141 crore on a total income of Rs.2,568 crore as compared to PAT of Rs.267 crore on total income of Rs.2,504 crore. During Q1FY21, profitability of the bank was impacted on account of higher provisioning (including provisions for Covid-19).

Key Rating Weaknesses

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

The bank's total deposits saw de-growth to Rs.57,812 crore as on March 31, 2020 from Rs.58,394 crore as on March 31, 2019. The growth in deposits was impacted the last quarter of FY20 as the bank's total deposits stood at Rs.62,907 crore as on December 31, 2019. The bank's CASA deposits increased by 17.34% to Rs.17,116 crore as on March 31, 2020 from Rs.14,587 crore as on March 31, 2019; albeit, the proportion of CASA deposits remained lower compared to peer banks at 29.61% (P.Y.: 24.98%). The average cost of deposits (based on year-end figures) increased to 6.90% for FY20 as compared to 6.34% for FY19. The cost of deposits decreased to 6.27 % in Q1FY21. The bank's deposits increased to Rs.61,736 crore as on June 30, 2020, and the bank's CASA proportion stood at 30.07% as on June 30, 2020. The deposit base is also fairly concentrated on account of higher reliance on bulk deposits, with top twenty depositors accounting for 18.83% of total deposits as on March 31, 2020, marginally up from 18.41% as on March 31, 2019. The ability of the bank to granulize the deposit profile with improve cost of funds is a key rating sensitivity.

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 50.33% [P.Y.: 51.28%] as the bank is in a growing phase. The cost to income ratio of the bank further improved to 49.83% in Q1FY21 on account of lower disbursement in loans.

Moderate asset quality indicators

RBL's total advances growth moderated to 6.83% y-o-y and stood at Rs.58,019 crore as on March 31, 2020, largely driven by growth in the bank's Non-Wholesale loans segment. Non-Wholesale Assets grew by 35.07% to Rs.32,525 crore as on March 31, 2020, while Wholesale Assets recorded a de-growth of 15.66% y-o-y and stood at Rs.25,494 crore as on March 31, 2020. Within the Non-Wholesale segment, Retail Assets recorded a growth of 40.77% y-o-y to Rs.23,181 crore as on March 31, 2020, majorly driven by growth of 98.92% in the bank's Credit Card portfolio. Non-wholesale loans constitute 56.06% (P.Y.: 44.34%) of Total Net Advances as compared, while Wholesale loans constitute the balance 43.94% as on March 31, 2020.
Asset quality of the bank deteriorated with Gross NPA (%) and Net NPA (%) at 3.62% [P.Y.: 1.38%] and 2.05% [P.Y.: 0.69%], respectively as on March 31, 2020. The bank's Net NPA to net worth stood at 11.54% [P.Y: 5.08%]. In absolute terms, Gross NPA increased by 183.13% to Rs.2,137 crore as on March 31, 2020 from Rs.755 crore as on March 31, 2019. The increase in Gross NPA was largely driven by increase in NPA in its corporate asset book due to stress in 4-5 legacy corporate accounts which contributed Rs.1,800 crore of slippages.
As on June 30, 2020, RBL reported Gross NPA Ratio of 3.45%, Net NPA Ratio of 1.65% and Net NPA to Networth ratio of 8.94%.
The bank reported slippage ratio of 6.19% as on March 31, 2020 as compared to 1.76% as on March 31, 2019 largely driven by slippages in the corporate loan book and card's portfolio. The bank saw a rise in 'BB and below' rated borrowers from 5.7% of the portfolio as on March 31, 2019 to 6.5% as on March 31, 2020 and further to 7.50% as on June 30, 2020 on account of shrinkage in wholesale exposures while the absolute values were stable/reduced.

Relatively unseasoned retail advances book

In FY20, loan book of the bank grew at a modest pace of 6.83% over March 2019 levels. The bank's advances have grown at a CAGR of 28.58% from the end of FY16 to FY20. In FY20, the non-wholesale businesses grew at 35%. Within the non-wholesale book, retail assets grew by 40% while the Development Banking & Financial Inclusion book grew by 23%. In Q1FY21, the bank's loan book de-grew by 2.3% over March 2020 levels due to low fresh disbursements in the quarter. Due to the rapid pace of growth, the loan book is relatively unseasoned and has to see the test of times.

Concentration risk; albeit improving

The concentration in advances has been reducing over the years with top 20 individual advances constituting around 10.15% of total advances as on June 30, 2020 as compared to around 15.09% as on June 30, 2019 while the top 20 group exposures constituting around 17.39% of total advances as on June 30, 2020 as compared to around 20.5% as on June 30, 2019. As part of the bank's strategy of geographical diversification, the bank's business in the micro-banking space is spread across 21 states with no single state contributing more than 15% of advances book.

Liquidity: Strong

As per the asset liability maturity (ALM) profile as on June 30, 2020 the bank does not face negative cumulative mismatches in any time bucket upto 1 year. 63% of deposits mature till the one year time bracket and as compared to that only 52% of advances get repaid. The bank has a surplus liquidity of Rs.13,658 crore as on July 24, 2020. The average LCR of the bank as on June 30, 2020 was 163.93%. Further the bank has access to LAF and MSF facility in case of any liquidity requirements.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook and Creditwatch to Credit Ratings
CARE Policy on Default Recognition
CARE's Rating Methodology For Banks
Bank - Rating framework for Basel III instruments (Tier I & Tier II)
Financial ratios - Financial Sector

About the Bank

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 August 2017, the Bank raised equity capital of Rs. 1,680 crore through issue of equity shares on preferential basis to a set of marquee investors. In FY20, the bank further raised equity capital of Rs.2,701 crore through a private placement with a set of marquee investors. As on March 31, 2020, the Bank had a network of 386 branches and 389 ATMs in the country.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total income	7,743	10,425
PAT	867	506
Total Assets	80,148	88,701
Net NPA (%)	0.69	2.05
ROTA (%)	1.22	0.60

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

Complexity level of various instruments rated for this company: Annexure 3

Annexure-1: Details of Instruments/Facilities

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

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Bonds-Tier II Bonds	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (09-Oct-19)	1)CARE AA-; Stable (08-Oct-18)	1)CARE AA-; Stable (05-Oct-17) 2)CARE AA-; Stable (11-Apr-17)

Annexure 3: Complexity level of various instruments rated for the bank

Sr. No.	Name of instrument	Complexity level
1	Tier II Bonds (Basel III)	Complex

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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