

RBL Bank Ltd

October 05, 2017

Rating

Instrument	Amount (Rs. crore)	Rating ¹	Remarks
Tier II Bonds (Basel III)	800 (Enhanced from Rs.100 crore) (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 continues to take into account the experienced management, comfortable capital adequacy, long track record of operations, adequate profitability and good asset quality of RBL Bank Limited. The rating, however, remains constrained by the small scale of operations & geographical concentration, high operating cost, unseasoned loan book given the robust growth in last few years, low proportion 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 transformation in FY11 when the management team was revamped with experienced professionals occupying key positions. Mr. Vishwavir Ahuja, ex CEO and MD 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 professionals like Mr. Rajeev Ahuja (Head – Strategy) who brings over 25 years of experience in investment banking and financial markets.

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 IPO 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. The Bank also added Rs.114.67 crore to its capital on exercise of stock options by employees during the year. 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 further raised equity capital of Rs.1,680 crore through private placement to set of marquee investors like CDC Group

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

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's Total CAR (Basel III) stood at 13.72% (Tier I CAR: 11.39%) with CET I Ratio at 11.39% as on March 31, 2017. Further, as on June 30, 2017, the bank's CAR stood at 13.40% with Tier I CAR (entirely CET I) at 11.10%.

Comfortable asset quality

Asset quality of the bank continued to remain comfortable with Gross NPA (%) and Net NPA (%) at 1.20% and 0.64%, respectively as on March 31, 2017. The bank's Net NPA to net worth was also comfortable at 4.47%. However, in absolute terms, Gross NPAs increased from Rs.208 crore at the end of FY16 to Rs.357 crore by the end of March 2017. As at the end of June 2017, RBL reported Gross NPA Ratio of 1.46% and Net NPA Ratio of 0.80%. Its Net NPA to Net worth ratio stood at 5.70%.

Adequate profitability

The bank's total income grew by 38% in FY17 due to rise in interest income led by advances growth of 39%. Due to decline in the cost of deposits, net interest income increased 49% to Rs.1,221 crore. Consequently, NIM improved to 2.78% [Previous Year (PY):2.47%]. With growth in loan portfolio, the bank's cost to income ratio declined to 53.44% for FY17 from 58.59% for FY16, leading to a 53% growth in net profit. As a result, the bank's Return on Total Assets (ROTA) improved to 1.02% [P.Y.:0.88%]. In Q1FY18, the bank reported net profit of Rs.141 crore on a total income of Rs.1,300 crore.

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 53.44% [P.Y.: 58.59%]. With further expansion in business, operating cost may take some time to stabilize. The cost to income ratio of the bank further declined to 50.94% in Q1FY18.

Relatively unseasoned advances book

In FY17, loan book of the bank grew at a robust pace of 38.72% over March 2016 levels. The bank's advances have grown at a CAGR of 27% between FY15 to FY17. Further, in Q1FY18, the bank's loan book grew by 5.6% over March 2017 levels. Due to this rapid pace of growth, the loan book is relatively unseasoned and has to see the test of times.

Low CASA proportion and concentration in deposits

The bank's CASA proportion is relatively low with a CASA ratio of 22.1% as on June 30, 2017. The deposit base is also fairly concentrated with top twenty depositors accounting for 21% of total deposits at the end of Q1FY18, although the same has reduced to 21.41% at the end of FY17 and 22.88% at the end of FY16.

Geographical concentration

RBL's business is mainly concentrated in the regions of Maharashtra and Delhi. Maharashtra and Delhi regions accounted for 69% of deposits 50% of advances as on June 30, 2017. Any adverse economic environment in these geographies will negatively impact the business of RBL.

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, 2017, the Bank had a network of 239 branches, all the branches are under Core Banking Solution and 375 ATMs in the country.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total Income	3,235	4,469
PAT	292	446
Total Assets	39,136	48,585
Net NPA (%)	0.59	0.64
ROTA (%)	0.88	1.02

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. Investors/market intermediaries/regulators or others are welcome to write to 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Bonds-Tier II Bonds	LT	800.00	CARE AA-; Stable	1)CARE AA-; Stable (11-Apr-17)	-	1)CARE AA- (29-Feb-16)	-

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