RBL Bank Limited

January 10, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount(Rs. crore)	Rating Action
Certificate of Deposit Programme	4,000.00	5,000.00	[ICRA]A1+; Assigned/Outstanding
Basel III Compliant Tier II Bond Programme	800.00	800.00	[ICRA]AA- (hyb) (stable); Outstanding
Medium Term Fixed Deposit Programme	-	-	MAA (stable); Outstanding
Short Term Fixed Deposit Programme	-	-	[ICRA]A1+; Outstanding
Total	**4,800.00**	**5,800.00**	

Rating action

ICRA has assigned the rating of [ICRA]A1+ for the enhanced certificate of deposit programme of Rs. 5,000 crore (enhanced from Rs. 4,000 crore) of RBL Bank Limited (RBL). ICRA has the rating of [ICRA]AA- (hyb) outstanding for the Rs. 800 crore Basel III Compliant Tier II bond programme of RBL. ICRA also has the rating of [ICRA]A1+ outstanding for the short term fixed deposit programme and the rating of MAA outstanding for the medium term fixed deposit programme of RBL . The outlook on the long-term and medium-term ratings is stable.

The letters "hyb" in parenthesis suffixed to a rating symbol stand for "hybrid", indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss severity vis-à-vis conventional debt instruments.

Rationale

The ratings continue to be supported by the bank's long track record, its experienced senior management team, diversified non-interest revenue sources and strong capitalisation levels following the equity raising. The long term and medium term ratings were earlier upgraded in October 2017 following the equity capital raising of Rs. 1,680 crore by the bank in August 2017, which resulted in an improvement in the capitalisation profile and provides support future growth. The ratings continue to factor in the gradual improvement in the bank's liability profile supported by lower deposit concentration, reducing share of bulk deposits and elongation in the average maturity of deposits. Notwithstanding the gradual improvement in its liability profile, the deposits of the bank remain concentrated with relatively high share of bulk deposits and lower proportion of low-cost deposits in its resource profile. ICRA takes note of the concentration of advances in terms of geography and corporate groups. While the geographical concentration continues to reduce with Maharashtra, Karnataka and Delhi/NCR accounting for 58.05% of the advances as on September 30, 2017 as against 96.4% as on March 31, 2013, the bank's top-20 group exposures remain high at 29% of the total exposures as on June 30, 2017. ICRA nevertheless notes that the top-20 group exposures are towards corporates with good credit quality. Given the robust growth in the last four years, the bank's loan book is relatively unseasoned with a high share of unsecured portfolio (~29% of advances as on September 30, 2017); a majority of the unsecured book is in the form of microfinance loans where the borrower profile is vulnerable to economic shocks. ICRA takes notes of the weakening in asset quality in the microfinance loans post demonetisation and the expected higher credit costs of 2-2.50% on this portfolio, which will translate to a credit cost of 0.11% for the bank in the current fiscal.

Outlook: Stable

The stable outlook takes into account RBL's long track record, its experienced senior management team, diversified non-interest revenue sources and strong capitalisation levels following the equity raising. Given the bank's high growth plans, its ability to diversify the mix of assets and liabilities, while maintaining comfortable asset quality and capitalisation will remain the key rating positives. Conversely, a sharp deterioration in asset quality as the loan book seasons leading to a decline in profitability or an increase in concentration of exposures or liabilities will be rating negatives.

Key rating drivers

Credit strengths

Steadily improving scale of operations - The bank's loan book grew by 39% in FY2017 to Rs. 29,449 crore as on March 31, 2017. The advances grew further by 35% on a YoY basis during H1FY2018, to Rs. 35,576 crore as on September 30, 2017. Within the loan book, the share of wholesale advances stood at 59% as on September 30, 2017. Although the credit off take in the wholesale segment remained muted for the industry, the bank reported a growth owing to its lower base and by catering to the short term requirements of corporate customers. With the bank's focus being on working capital loans, 86% of the overall advances were of less than 3 year tenure as on September 30, 2017. Of the total portfolio, 71% of the portfolio was secured as on September 30, 2017. The unsecured portfolio includes loans to MFIs, BILs, credit card as well as bank lines for certain highly rated large corporate borrowers.

Improvement in capitalisation profile supported by the capital raising in August 2017 - With the preferential issue of Rs. 1,680 crore in August 2017, the bank's capital ratios (Tier 1 and CRAR as % of risk weighted assets) improved to 14.50% and 16.60% respectively as on September 30, 2017 from 11.10% and 2.30% as on June 30, 2017. The solvency remained strong with net NPAs/net worth of 5.6% as on September 30, 2017 (4.4% as on March 31, 2017), and was better than industry average. However, given the capital required to fund the targeted growth, the bank raised Rs. 1,680 crore in August 2017, by way of a preferential issue to reputed institutional investors. With the capital infusion, the bank is now adequately capitalised to meet its medium term growth targets.

Steady improvement in profitability driven by lower cost of funds - The bank's yield on advances declined to 10.1% during H1FY2018 (10.7% in H1FY2017) given the declining interest rate environment. However, with a higher decline in cost of funds to 6.2% during H1FY2018 (6.9% in H1FY2017), the bank's net interest margins[1] (NIMs) improved to 3.2% during H1FY2018 (2.7% in H1FY2017). ICRA notes that the surplus liquidity and the higher share of bulk deposits have contributed to the higher decline in the bank's cost of funds. With the improvement in NIMs and the significant growth in advances, the bank's net interest income (NII) registered a YoY growth of 46% during H1FY2018 (49% in FY2017). Strong NII growth and a high treasury income of Rs. 113 crore during H1FY2018 (Rs. 69 crore during H1FY2018) resulted in an improvement in profit after tax / ATA (PAT/ATA) to 1.16% during H1FY2018 (0.93% in H1FY2017).

Comfortable asset quality - The bank's asset quality weakened slightly with gross NPAs increasing to 1.44% as on September 30, 2017 (1.20% as on March 31, 2017) with slippages increasing in the Development Banking and Financial Inclusion (DB&FI) segment during H1FY2018. With the higher slippages, the net NPAs increased to 0.78% as on September 30, 2017 (0.64% as on March 31, 2017). The bank's standard restructured assets stood at 0.41% of the total advances as on September 30, 2017 (0.25% as on March 31, 2017). The bank has done only 1 SDR while it has not done any S4A or 5/25 refinancing during H1FY2018. RBL's security receipts stood at 0.02% as on September 30, 2017. The bank also does not have any exposure to the 12 accounts identified by the Reserve Bank of India for insolvency proceedings.

[1] as % of average total assets – ATA

Credit challenges

Concentration of advances, albeit gradually reducing - The bank's operations were initially concentrated in the Maharashtra and North Karnataka region. In the past 5 years, it has opened branches in the commercial zones of the country like Delhi, Chennai and other metros; exposures in these branches have started increasing, resulting in lower geographic concentration. Currently, Maharashtra and Delhi account for a majority of the bank's advances, at around 50% as on September 30, 2017 (52% as on March 31, 2016). As on September 30, 2017, the western region contributed 39% of net advances (40% in March 31, 2016) followed by 25% by the North (28%), 19% by South (22%) and 17% by East (10%). RBL's top 20-group exposures accounted for 29% of the total exposure over the past few quarters. Although the concentration of group exposures is relatively high, these are towards higher rated corporates which provides some comfort.

Albeit an improvement, resource profile remains concentrated – Even though the bank's Current Account and Saving Account (CASA) ratio improved to 24% as on September 30, 2017 from 19% as on March 31, 2016, the ratio remains lower than that of many other private sector banks. The rise in RBL's saving deposits was on account of the higher rates on deposits offered, the greater visibility of the bank through increasing branch presence and branding efforts, and partly on account of demonetisation. The share of deposits over Rs. 1 crore remained high (although declining) at 66% as on September 30, 2017 (as compared to 72% as on March 31, 2016).

Higher credit costs on the microfinance loan book - Following demonetisation, the bank's asset quality in the DB&FI segment suffered the most given the unsecured nature of lending and the marginal profile of the borrowers. As on September 30, 2017, the bank had an exposure of Rs. 4,614 crore to the DB & FI segment of which the microfinance portfolio (joint liability group lending) stood at Rs 2,533 crore (55%), Rs. 465 crore was to Micro and Small Enterprise borrowers while the balance Rs. 1,616 crore was to NBFCs catering to these borrowers. RBL's 30+ dpd for the microfinance portfolio stood at 7.7% as on September 30, 2017 and is expected to increase to around 8.5% to 9% by March 2018 (before any set off for first loss default guarantees). Since the bank's direct microfinance lending is sourced through business correspondents (BCs), RBL has first loss default guarantees (FLDG) of 3-5% on its microfinance book furnished by the BCs. After adjusting for FLDGs, the bank expects its gross NPA to be 5% to 5.5%, of which 2% to 2.5% would be the potential loss in FY2018. A loss of 2.5% on the micro-banking book amounts to ~Rs. 56 crore, which at ~1% of Tier 1 capital will be low.

Operating expenses remain high – Though the bank's operating cost to income ratio[2] was 57.51% in Q2FY2018 as compared to 56.20% in Q2FY2017, it remains higher than the private sector banks' average of 46.11% in Q1FY2018. The bank's operating expenses are expected to remain high with significant investments being made in infrastructure, branches and technology in line with the scaling up of operations.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below**.**

Links to applicable criteria:

ICRA Rating Methodology for Banks

[2] Trading income is excluded from operating income, for computing the operating cost to income ratio

About the company:

RBL Bank Limited is a Kolhapur, Maharashtra based private sector bank established in 1943. Following a management change in 2010, the Bank's corporate office shifted to Mumbai. Since FY2011, it is one of the fastest growing scheduled commercial banks with a presence across 16 Indian states and union territories. As on September 30, 2017, RBL operated through 246 branches and 388 ATMs.

During FY2017, the bank reported a total income of Rs. 4,469 crore and a net profit of Rs. 446 crore (RoE of 13.46%). In H1FY2018, the bank reported a net profit of Rs. 292 crore as compared with a net profit of Rs. 187 crore in H1FY2017 with a comfortable regulatory capital adequacy ratio at 16.60% (Tier I capital standing at 14.50%) as on September 30, 2017.

Key financial indicators (Audited)

	FY2016	FY2017	H1FY2018
Net interest income	819	1,221	799
Profit before tax	428	681	445
Profit after tax	292	446	292
Net advances	21,229	29,449	33,576
Total assets	39,161	48,675	52,126
% CET 1	11.10%	11.40%	14.50%
% Tier 1	11.10%	11.40%	14.50%
% CRAR	12.94%	13.72%	16.60%
% Net interest margin / Average total assets	2.47%	2.78%	3.17%
% Net profit / Average total assets	0.88%	1.02%	1.16%
% Return on net worth	9.78%	13.46%	10.98%
% Gross NPAs	0.98%	1.20%	1.44%
% Net NPAs	0.59%	0.64%	0.78%
% Provision coverage excl. technical write offs	40.19%	46.77%	46.41%
% Net NPA/ Net worth	6.77%	4.38%	4.15%

Amount is Rs. crore; All ratios are as per ICRA calculations

Source: RBL; ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2018)				Chronology of Rating History for the past 3 years							
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)		FY2018	FY2017			FY2016		FY2015	
					Jan-18	Oct-17	Mar-17	Dec-16	Jun-16	Feb-16	Jul-15	Aug-14	Jul-14
1	Certificate of Deposits	Short Term	5,000.00	NA	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
2	Short Term Fixed Deposits	Short Term	-	-	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+	[ICRA] A1+
3	Basel III Compliant Tier II Bond Programme	Long Term	800.00	730.00	[ICRA] AA-(hyb) (stable)	[ICRA] AA-(hyb) (stable); upgrade from [ICRA] A+ (hyb) (positive)	[ICRA] A+ (hyb) (positive); outlook revised to positive	[ICRA] A+ (hyb) (stable)	[ICRA] A+ (hyb) (stable)	[ICRA] A+ (hyb) (stable); Assigned	NA	NA	NA
4	Medium Term Fixed Deposits	Medium Term	-	-	MAA (stable)	MAA (stable); upgraded from MAA- (positive)	MAA- (positive); outlook revised to positive	MAA- (stable)	MAA- (stable)	MAA- (stable)	MAA- (stable)	MAA- (stable)	MAA- (stable)

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE976G08049	Basel III tier II bonds	16-Feb-16	10.25%	16-May-22	200.00	[ICRA]AA-(hyb) (stable)
INE976G08056	Basel III tier II bonds	31-Mar-16	10.25%	30-Jun-22	200.00	[ICRA]AA-(hyb) (stable)
INE976G08064	Basel III tier II bonds	27-Sep-16	10.20%	15-Apr-23	330.00	[ICRA]AA-(hyb) (stable)
NA	Basel III tier II bonds	Yet to be placed	-	-	70.00	[ICRA]AA-(hyb) (stable)
NA	Certificate of Deposits	-	-	7-365 days	5,000.00	[ICRA]A1+
NA	Short Term Fixed Deposits	NA	NA	NA	NA	[ICRA]A1+
NA	Medium Term Fixed Deposits	NA	NA	NA	NA	MAA (stable)

Source: RBL

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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