RBL Bank Limited

October 07, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Tier II Bonds	800.00	CARE AA-; Stable	Reaffirmed
Certificate Of Deposit	6,000.00	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Tier-II Bonds under Basel III are characterised 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.

Rationale and key rating drivers

Reaffirmation of ratings assigned to instruments of RBL Bank Limited (RBL Bank) factor in bank's long track record of operations, comfortable capitalisation supported by capital raise in the past, healthy growth in advances and deposits. The bank has been focusing on increasing the proportion of retail with faster growth in secured retail loans. Furthermore, the deposit base has been gradually improving with the increase in granular retail deposits over the years, although the dependence on bulk deposits remains high leading to the relatively higher cost of funds. The bank's current account saving account (CASA) stands relatively low. Going forward, the bank's ability to increase CASA proportion while reducing its bulk deposits would be a key sensitivity.

The rating is constrained on account of high proportion of unsecured loans (credit cards and MFI) within retail and on overall advances which is relatively riskier and has shown signs of stress in recent times.

Furthermore, the bank's profitability continues to be relatively moderate mainly on account of high cost to income ratio and increased credit cost driven by stress in unsecured segment. The bank's ability to improve the profitability by controlling its cost to income ratio and credit cost with increase in secured book which will have an impact on the total income remains a key monitorable.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profitability with return on total assets (ROTA) over 1.25% on a sustained basis.
- Significant increase in size of total business along with product and geographical diversification of advances while maintaining comfortable capitalisation.

Negative factors

- Decline in capital adequacy ratio (CAR) with cushion over the minimum regulatory requirement falling below 3%.
- Decline in asset quality with net non-performing assets (NNPA) ratio above 3.0% on a sustained basis.
- Decline in profitability with ROTA below 0.5% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects the likely continuation of comfortable capitalisation levels, diversification and granularization in the advances book with higher proportion of secured retail advances, diversification in the resource profile with higher proportion of retail deposit base and improved asset quality parameters, and financial performance.

Detailed description of key rating drivers:

Key strengths

Long track record with increase in franchise

RBL Bank was incorporated in 1943 in Kolhapur (Maharashtra) and was accorded scheduled commercial bank status in 1959. It has been in operation for more than 70 years in Maharashtra and Karnataka. The bank's franchise is spread across the country

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

with a network of 545 branches as on June 30, 2024. The bank's total business (advances + deposits) stood at ₹1,88,056 crore as on June 30, 2024.

The bank's board of directors is headed by Prakash Chandra, non-executive part-time Chairman. He is an advocate and a member of the High Court and Supreme Court Bar Associations. He has served 38 years as an Indian Revenue Officer at the Indian Revenue Service (IRS) with the Government of India. The bank's operations are headed by R Subramaniakumar, MD and CEO from June 23, 2022, for three years. He is a veteran banker with 40 years of experience. The bank has an experienced management team to head different functions.

Comfortable capital adequacy supported by capital raised over the period

The bank has demonstrated strong capital raising ability over the years which has helped the bank to maintain comfortable capitalisation levels despite the strong growth over the years. The bank did not raise equity capital in the past few years. The last capital raise was in May 2022 when the bank raised Tier-II capital of ₹821 crore from Development Finance Corporation (DFC), an arm of US Government. The bank plans to raise Tier-II capital in next 3-6 months, while equity capital will be raised within the next 12 months to support its advance growth. The bank's capital adequacy ratio (CAR) stood comfortable at 15.56% with Common Equity Tier-I (CET I) ratio of 13.85% as on June 30, 2024 (CAR of 16.18% with Core Equity Tier-I (CET I) ratio of 14.38% as on March 31, 2024), as against CAR of 16.92% and CET I ratio of 15.25% as on March 31, 2023.

The bank is expected to maintain a sufficient cushion above the minimum regulatory requirement at all times, having an internal threshold for the minimum capital requirement at 14%.

Strong advances growth with focus on retail advances

During FY24, RBL Bank experienced steady portfolio growth of 30.09% (PY 20.58%) in the retail segments and 7.43% (PY 13.03%) in the wholesale segment, resulting in an overall advances growth of 19.62% as compared to overall growth of 16.97% in FY23. The advances of bank stood at ₹86,704 as on June 30, 2024 (₹83,987 crore as on March 31, 2024) and had diversified its product portfolio with offerings such as Corporate & Institutional Banking (C&IB), Credit Cards, Commercial Banking (CB), Business Loans, and Micro Loans, has further expanded its range by launching several new products which include housing loans, business and loan against property (LAP) loans, rural vehicle finance, two-wheeler loans, used car loans, loan against gold ornaments, and education loans, which are all secured products.

Of total advances, around 62% were retail advances including products such as credit cards and personal loans (25%), business loans (9%), microfinance loans (8%), and housing loans (8%), while 38% were wholesale advances (corporate and institutional banking being 27% and commercial banking being 11%) as on June 30, 2024. RBL Bank is expected to grow its advances at ~20%, with the retail segments driving the credit expansion.

Key weaknesses

Asset quality challenges persist on unsecured loans

The bank has a large unsecured portfolio constituting 55% of the retail book and 41% of the overall loan book. The unsecured book consists of credit cards and MFI which during COVID-19 was impacted significantly eroding RBL's profitability. Although the asset quality has been improving year-on-year since the peak of COVID-19, the unsecured segment remains vulnerable.

The gross non-performing asset (GNPA) ratio improved from 3.37% as on March 31, 2023 to 2.65% as on March 31, 2024 as the gross slippages have reduced for FY24. The asset quality has witnessed some moderation during Q1FY25 and GNPA increased marginally to 2.69% as on June 30, 2024. The bank had provision coverage ratio (PCR) of 73% (excluding technical write-offs) as on June 30, 2024 (March 31, 2024: 73%).

CARE Ratings observes, since these loans are susceptible to economic downturns, the bank's ability to keep slippages low will be key for its overall asset quality parameters and profitability.

Moderate profitability

In FY24, the bank reported a marginal increase in the ROTA to 0.92% as compared to 0.80% for FY23. It reported an increase in the total income to ₹15,437 crore in FY24 from ₹12,165 crore in FY23 on account of increase in the net interest income and other income of the bank. The non-interest income of the bank increased from ₹2,489 crore in FY23 to ₹3,043 crore in FY24. The cost to income ratio of the bank has stood relatively high at 66.60% in FY24 as against 70.59% in FY23.

Operating expenses rose by 14.6% year-over-year to ₹6,055 crore in FY24, as the bank continues to invest in expanding its distribution network, enhancing technology, and scaling up existing retail products along with launching new secured retail products and is in the growth phase of operations and increasing branch network over the last few years. Further the credit cost of the bank has significantly increased during FY24 to 1.40% (1.07% as on June 30, 2024) as against 0.92% as in FY23, as the bank set aside a contingency Buffer on Credit Cards + Microfinance + Personal Loans at 100 bps. Along with standard asset provision as required by RBI norms, the provision on standard advances is 125-140 bps totalling to ₹282 crore, and a contingent

provision for AIF Investments as mandated by RBI guidelines, amounting to ₹114 Crore. Including these amounts, total provisions and contingencies reported 74% year-over-year increase from ₹1,022 crore in FY23 to ₹1,778 (which includes contingency buffer on Credit Cards + Microfinance + Personal Loans and provision on AIF amounting to ₹396 crore) crore in FY24. It is estimated to be around 2% unless there is some unusual developments.
The cost of funds in Q1FY25 stood at 6.6%, aligning closely with the cost of deposits, which stood at 6.5%. In FY24, even though the PPOP of the bank has increased the overall ROTA has remained stable. Bank's plan is to reach the ROTA of around 1.4-1.5 by FY26.

High dependency on bulk deposits

The bank has witnessed a growth 21.92% in the deposit base during FY24 on a y-o-y basis. The total deposits stood at ₹1,03,494 crore as on March 31, 2024 as compared to ₹84,887 crore as on March 31, 2023 and are expected to grow faster than advances. The deposit base of the bank is fairly concentrated on account of higher reliance on bulk deposits, as compared to larger peers, with top 20 depositors accounting for 17.44% of total deposit as on March 31, 2024 (as on March 31, 2023: 16.23%) with the goal of reducing their share to 14-15% in FY25. The bank has been increasing the proportion of retail deposits share in the overall deposits. Further, with the granularization in deposits the same is expected to continue to improve. The proportion of CASA deposits stood at 32.6% as on June 30, 2024 (35.23% as on March 31, 2024), which is relatively lower as compared to peer private sector banks and is projected to grow by 1-2% per annum.

Liquidity: Adequate

As per the structural liquidity statement as on June 30, 2024, there were no negative cumulative mismatches for time buckets up to six months. The bank also maintained excess statutory liquidity ratio (SLR) of ₹12,612 crore over and above regulatory requirements, which provides liquidity buffer. The bank's liquidity coverage ratio (LCR) was comfortable at 137% as on June 30, 2024, as against the minimum regulatory requirement of 100%.

Environment, social, and governance (ESG) risks

The bank has an Environmental and Social Risk Governance (ESG) Committee, which oversees implementation of ESG, which is its response to material environmental and social issues, including sustainability policy implementation. The bank conducts an extensive E&S risk assessment process, screening large corporate lending and project financing transactions against their 'exclusion list', which prohibits funding for weapons, alcoholic beverages (excluding beer and wine), tobacco, gambling, and similar activities. This assessment applies to wholesale transactions with exposure exceeding US$ 5 million and a tenure of over 12 months, other than those industries falling under the Central Pollution Control Board Red List, for which threshold is US$ 1 million. If identified, the bank collaborates with clients to develop a Corrective Action Plan (CAP) to mitigate risks, which is incorporated into the sanction letter and closely monitored. Unmitigated or residual risks are escalated to top management for resolution.

Applicable criteria

Definition of Default
Short Term Instruments
Financial Ratios - Financial Sector
Rating Outlook and Rating Watch
Bank
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Financial Services	Financial Services	Banks	Private Sector Bank

RBL Bank Limited (erstwhile Ratnakar Bank) is a mid-sized private sector bank, incorporated in 1943. The bank gained the status of a scheduled commercial bank in 1959. The bank is headed by Mr. R Subramaniakumar, who was appointed as Managing Director & CEO of the Bank for a period of 3 years, to be effective from June 23, 2022. Its total business book stands at ₹1,88,056 crore as on June 30, 2024. As on June 30, 2024, its operations are spread across 545 branches with 311 branches solely in metro cities. The bank's business correspondence branches stood at 1,261 as on June 30, 2024, of which 947 branches were of RBL Finserve Limited (RFL), a wholly owned subsidiary of RBL Bank.

Brief Financials (₹ crore)	31-03-2023 (A)	31-03-2024 (A)	**Q1FY25 (UA)**
Total operating income	12,165	15,437	4,301
PAT	883	1,168	372
Total assets	1,15,897	1,37,859	1,35,784
ROTA (%)	0.80	0.92	1.09
Net NPA (%)	1.10	0.74	0.74

A: Audited UA: Unaudited; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Detailed explanation of covenants of rated instruments/facilities is given in Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Bonds-Tier II Bonds (Proposed)		-	-	-	800.00	CARE AA-; Stable
Certificate Of Deposit (Proposed)		-	-	-	6000.00	CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Bonds-Tier II Bonds	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (21-Mar-24) 2)CARE AA-; Stable (27-Sep-23)	1)CARE AA-; Stable (03-Oct-22)	1)CARE AA-; Stable (31-Dec-21) 2)CARE AA-; Stable (06-Oct-21)
2	Certificate Of Deposit	ST	6000.00	CARE A1+	-	1)CARE A1+ (21-Mar-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Bonds-Tier II Bonds	Complex
2	Certificate Of Deposit	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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