RBL Bank Ltd

April 11, 2017

Rating

Instrument	Amount (Rs. crore)	Rating[1]	Remarks
Tier II Bonds (Basel III)	100.0 (Rupees One 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 takes 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 is however constrained, by the small scale of operations & geographical concentration, high operating cost, unseasoned loan book given the robust growth in last few years, low CASA proportion & reliance on bulk deposits leading to moderate liquidity profile and depositor concentration. Capital adequacy levels, asset quality, profitability, granularity in deposit base and liquidity profile are the key rating sensitivities.

Detailed description of the key rating drivers

Credit Strengths

Experienced Management

RBL underwent transformation in FY11 with the management team being revamped with experienced professionals occupying key managerial 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 Rajeev Ahuja (Head – Strategy) who brings in over 25 years of experience in investment banking and financial markets.

Comfortable Capital Adequacy

The bank has a comfortable capital adequacy ratio in spite of the strong growth over the years due to regular capital infusion. During FY16, there was a capital infusion of Rs.487.5 crore. Further Bank also raised equity capital of Rs.832.5 crore through IPO in H1FY17. As per Basel III, as on December 31, 2016, the total CAR, Tier I CAR ratio stood at 13.80% and 11.30%, respectively.

Comfortable asset quality

Asset quality of the bank is good as compared to peers with Gross NPA (%) and Net NPA (%) at 0.98%(FY15:0.77%) and 0.59%(FY15:0.27%), respectively as on March 31, 2016. Net NPA to net worth was also comfortable at 4.20%. The lower Gross NPA ratio is due to the high growth in loan book registered by the bank. However, in absolute terms, Gross NPAs have increased from Rs.111 crore at the end of FY15 to Rs.208 crore by the end of March 2016. Further in 9MFY17, Gross NPA increased to Rs.285 crore. At the end of December 2016, Gross NPA and Net NPA ratio stood at 1.06% and 0.52%, respectively. Net NPA to net worth was comfortable at 3.33%.

Adequate Profitability

The bank's total income increased 37% in FY16 due to rise in interest income led by advances growth of 47%. Due to decline in the cost of deposits, net interest income increased 47% to Rs.819 crore. Decline in the cost to income ratio, led to increase in net profit by 41% to Rs.292 crore. Consequently, return on total assets marginally declined to 0.88% in FY16 from 0.91% in FY15. Net interest margin also marginally improved to 2.47% in FY16. In 9MFY17, the bank earned a net profit of Rs.316 crore on a similar growth in total income to Rs.3248 crore.

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

Credit Weakness

High operating cost
The bank's operating cost is high which is reflected by the high cost to income ratio as compared to its peers. The cost to income ratio stood at 53.91% in 9MFY17 vis-à-vis 58.59% in FY16. With further expansion in business, operating cost may take some time to stabilize.

Relatively unseasoned advances book

The bank's advances have been growing at a robust pace at CAGR of 47% between FY14 to FY16. Further, even in 9MFY17, the loan book has grown by 26% as compared to March 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 low at 23.2% as on December 31, 2016. The deposit base is also fairly concentrated with top twenty depositors accounting for 23% of total deposits at the end of FY16 which is a decrease from 27% at the end of FY15.

Geographical concentration
RBL's business is mainly concentrated in the regions of Maharashtra, NCR, Karnataka, West Bengal, Gujarat and Tamil Nadu. Maharashtra and NCR regions account for 67% of deposits and 50% of advances as on December 31, 2016. 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. 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 with an equity capital infusion of Rs.376 crore and Rs.328 crore in FY13 and FY14, respectively. There was also a capital infusion of Rs.487.5 crore in FY16 by investors like Asian Development Bank and CDC. Further Bank also raised equity capital of Rs.832.5 crore through IPO in H1FY17. As on December 31, 2016, the Bank had a network of 215 branches and 374 ATMs.

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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About CARE Ratings:

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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
Tier II Bonds (Basel III)	-	-	-	100	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	100.00	CARE AA-	-	-	1)CARE AA- (29-Feb-16)	-

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