RBL Bank Limited

Instrument/Facility	Amount In INR Crore	Rating Action (December 2016)
Certificate of Deposits	3000 (enhanced from 2250)	[ICRA]A1+ ; Assigned

ICRA has assigned the rating of [ICRA]A1+ to the Rs 3000 crore (enhanced from Rs 2250 crore) certificate of deposits programme of RBL Bank Limited(RBL/the bank).

ICRA also has ratings of [ICRA]A+(hyb) (stable) on Rs 800 crore of Basel III compliant Tier II Bonds, the rating of [ICRA]MAA- with a stable outlook on the Fixed Deposits Programme and the rating of [ICRA]A1+ on the Short Term Fixed Deposits Programme of the bank.

The ratings are supported by the bank's long track record, its experienced senior management team, diversified non-interest revenue sources, limited exposure to stressed sectors, comfortable regulatory capitalisation levels (of 15.1% as on September 30, 2016 (after factoring profit made till September 30, 2016) and sound asset quality indicators. The ratings also factor in the bank's geographical concentration of operations with a high, albeit moderating proportion of advances in the states of Maharashtra, Karnataka and Delhi/NCR, its relatively unseasoned book given the robust loan book growth in the recent past, high operating costs and lower proportion of low-cost deposits in its resource profile. These concerns are partly mitigated by the stability in the management team which had initiated the transformation process in the bank a few years ago. Going forward, the bank's ability to scale its business volumes in a fiercely competitive environment while managing associated risks will remain a key rating sensitivity.

During FY2016, the bank witnessed robust growth in its loan book (of around 47% YoY) with all segments witnessing robust growth rates. In H1FY2017, the bank further grew its loan portfolio by 17% to Rs 24,875 crore as on September 30, 2016. Amongst the various business segments, the bank saw a sharp growth of 57% in FY2016 (29% in H1FY2017) in the Corporate and Institutional Banking (C&IB) segment followed by Branch and Business Banking (BBB), Development Banking and Financial Inclusion (DB&FI), Agriculture Finance(Agri) and Commercial Banking (CB) which grew by 54%, 51%, 32% and 31% respectively, in FY 2016. In H1FY2017, all the segments saw a robust growth except the commercial banking and agri segments which contracted during the period as the management exercised caution given some stress witnessed in the CB portfolio and seasonality associated with Agri business. As on September 30, 2016, the share of C&IB, BBB, DB&FI, Agri and CB stood at 43%,18%,15%,7% and 18% respectively of the advances as against 39%,17%,15%,8% and 21% respectively at the end of March 31, 2016. The bank's exposure to vulnerable sectors (such as Power, Metals, Commercial Real Estate, and Construction) is relatively low and for a shorter tenure. The asset quality profile of the bank has deteriorated marginally during FY2016 and H1FY2017(GNPA% stood at 1.10% and NNPA% of 0.55% as on September 30, 2016 as against 0.77% and 0.27% respectively as on March 31, 2015) due to stress in the commercial banking and agri segment, but still remains comfortable (when compared to aggregate industry figures). However, since the bank's loan book has witnessed high growth rates (CAGR of 47% between FY2012-16) in the recent years, the seasoning of the book is low. Also the growth has been driven largely by C&IB segment; as a result it has high exposure to the corporate segment, which accounts for 43% of the loan book with top-20 advances accounting for 21% of the total portfolio as on September 30, 2016. While the non-wholesale businesses are growing at a faster clip, with the wholesale businesses (C&IB and CB) comprising of around 60% of the loan book of the bank, it is expected to take longer before the size of non-wholesale businesses match the wholesale businesses. Hence, RBL's ability to absorb asset quality shocks (as the loan book seasons) remains a key rating sensitivity.

Asset growth has been supported by the healthy growth in deposits, which grew by 42% in FY2016 and by 15% in H1FY2017. The deposits mix consists of 19.9% of CASA and 80.1% of term deposits as on September 30, 2016. To diversify the deposit profile, the bank has been offering higher interest rates on its saving accounts, which has helped the bank to increase its CASA at a healthy pace (grew by 23% and 44% in H1FY2017 and FY2016 respectively). Nevertheless, the CASA ratio remains lower than the industry average. The cost of interest bearing funds declined to 6.49% in FY2016 from 7.00% in FY2015.

Despite lowering of base rates, RBL protected its NIM/ATA during FY2016 (stable at 2.47%) by reducing its cost of funds and better mix of assets. The bank's operating performance was further supported by its healthy fee-based earnings (growth of 26% YoY in FY2016) to report Operating Profits/ATA of 1.21% in FY2016 vis-a-vis 1.31% in FY2015. However, the growth in net profits was adversely impacted due to increase in the credit costs (Credit Costs/ATA increased to 0.72% in FY2016 from 0.17% in FY2015). The bank reported a PAT of Rs. 292.49 crore (RoE of 9.79%) in FY2016 vis-a-vis a PAT of Rs. 207.17 crore (RoE of 9.29%) in FY2015. During H1FY2017, the reduction in cost of deposits of the bank due to increasing CASA ratio was partly offset by the lowering of yields on advances and therefore the NIMs remained stable on YoY basis. During H1FY2017, the bank reported a net profit of Rs 187 crore (Rs 206 crore before provisioning for the premium of Rs 28.46 crore paid on investment for 9.9% stake in Utkarsh Microfinance Ltd.) compared to a net profit of Rs 127 crore in H1FY2016.

In August 2016, RBL raised Rs 832 crore through initial public offering of its equity shares which strengthened the bank's capitalization. The bank's capitalization remains comfortably above regulatory requirements with a CRAR of 15.1% and Tier 1 CAR of 12.5% as on September 30, 2016.

Bank Profile
RBL Bank Limited (Formerly, The Ratnakar Bank Limited) is a Kolhapur based old private sector bank established in 1943. Following the management change in 2010, it is one of the fastest growing scheduled commercial banks with a presence across 16 Indian states and union territories. As on 31 March 2016, RBL operated out of 197 branches and 362 ATMs. The total branch count stood at 201 as on September 30, 2016.

During FY2016, the bank reported a total income of Rs. 3234.85 crore and a net profit of Rs. 292.49 crore (RoE of 9.79%). In H1FY2017, the bank reported a net profit of Rs 187 crore compared to a net profit of Rs 127 crore in H1FY2016 with a comfortable regulatory capital adequacy ratio at 15.1% (Tier I capital standing at 12.5%) as on September 30, 2016.

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For further details please contact:
Analyst Contacts:
Mr. Karthik Srinivasan, (Tel No. +91-22-6114 3444)
karthiks@icraindia.com

Mr. Anil Gupta, (Tel No. +91-12-4454 5314)
anilg@icraindia.com

Mr. Mohit Gupta, (Tel No. +91-22-6114 3449)
mohit.gupta@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91-22-6114 3406)
shivakumar@icraindia.com

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	