RBL Bank Limited

Instrument	Amount in INR Crores	Rating Action (*July 2015*)
Certificates of Deposit Programme	2,250 (Enhanced from 1,500)	[ICRA]A1+ Assigned/Reaffirmed
Fixed Deposit Programme	-	MAA- (Stable) Reaffirmed
Short Term Fixed Deposit Programme	-	[ICRA]A1+ Reaffirmed

ICRA has reaffirmed the rating of [ICRA]A1+ to the Rs 2,250 Crore (Enhanced from Rs. 1,500 Crore) Certificates of Deposits Programme of RBL Bank (RBL). ICRA has also reaffirmed the rating of [ICRA]MAA- with stable outlook on the Fixed Deposit Programme and the rating of [ICRA]A1+ to the Short Term Fixed Deposits Programme of the bank.

The ratings are supported by the bank's long track record, experienced senior management team, diversified non-interest revenue sources, limited exposure to stresses sectors, comfortable regulatory capitalisation level (of 13.13% as on March 31, 2015) and sound asset quality indicators. The ratings also factor in the geographical concentration of operations with a high proportion of advances in the states of Maharashtra, Karnataka and Delhi/NCR albeit moderating over the last three years, relatively unseasoned book (since the bank has witnessed robust loan book growth in the recent past), high operating costs and decreasing proportion of low-cost deposits in the deposit 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 ability of the Bank to scale up its business volumes in a fiercely competitive environment while managing associated risks, will remain a key rating sensitivity.

During FY2015, the bank witnessed a loan book growth of 47% YoY to Rs. 14,499.83 Crores with growth across all business segments. On the back of a sharp increase, the share of Agri Business and Development Banking & Financial Inclusion segments increased to 24% in FY2015 from 20% in FY2014. The other key segments included Corporate and Institutional Banking (36%[*]), Commercial Banking (24%[*]) and Branch and Business Banking (16%[*]). The bank's exposure to vulnerable sectors (such as Power, Commercial Real Estate, Construction) is fairly low and, as per the management, is expected to remain at these levels going forward as well. Despite the high operational intensity of the product, the management has indicated that it intends to position itself as a working capital financier for corporates as against long-term loan provider since the former de-risks the loan book significantly.

The asset quality profiles remain comfortable with gross and net NPA% of 0.77% and 0.27% respectively in FY2015 (0.79% and 0.31%respectively in FY2014). The Gross NPA generation rate has also declined to 0.49% in FY2015 from 1.00% in FY2014. Majority of the growth in the bank's advances has been sourced in the past 3-4 years, hence the ability of the bank to maintain asset quality as the portfolio seasons will be a key rating sensitivity.

Despite witnessing growth (33% YoY in FY2015) in terms of absolute CASA deposits, the CASA ratio continues to decline (as on March 31, 2015 it stands at 18.46%) primarily on account of higher growth witnessed in term deposits. Of late, the management has taken various marketing initiatives while offering attractive rates of interest on these deposits. However, given the growth trajectory of its business volumes, the CASA ratio is expected to remain below average industry levels for a few more quarters. The Bank's Top-20 depositor concentration has risen marginally to 27% in FY2015 from 24% in FY2014.

[*]As a proportion of total loan book as on March 31, 2015

The bank has historically maintained positive mismatches in the short term buckets. However, due to a growth in short term liabilities, the bank has reported negative mismatches in the short term buckets in FY2015 although the Bank is within the RBI permitted thresholds. The Bank manages its liquidity, amongst other things, through investments in highly liquid Government Debt, Corporate Bonds and interbank lines including refinance limits from financial institutions.

On account of higher advances, the bank registered a significant increase in its interest and fee income. The interest income for the bank rose from Rs 1351.62 Crores in FY2014 to Rs 1953.09 Crores in FY2015, and the fee income increased from Rs 186.05 Crores in FY2014 to Rs 271.73 Crores in FY2015. Expansion in NIMs on the back of lower cost of deposits and reduced operating expenses due to fewer new branches led a healthy growth in the operating profits of the bank (from Rs 178.69 Crores in FY2014 to Rs 360.12 Crores in FY2015).Provisions/contingencies expenses (including provision for tax) increased from Rs. 86.03 Crores in FY2014 to Rs. 152.95 Crores in FY2015 .The bank's PAT rose to Rs. 207.18Crores (RoE of 9.29%) in FY2015 from Rs. 92.67Crores (RoE of 4.60%) in FY2014.

As on March 31, 2015, even as the bank's capital adequacy ratio declined to 13.13% (with Tier I capital standing at 12.74%) from 14.64% as of March 31, 2014, it remains comfortably above the regulatory requirements. The proposed IPO is expected to improve the capital position and also support the near to medium term growth plans of the bank. The bank maintained a Liquidity Coverage Ratio of 71.52% for FY2015 which is above the prescribed limit of 60% set by RBI for the calendar year 2015.

PROFILE OF THE BANK

The RBL bank (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 13 Indian states. As on 31 March 2015, RBL operated out of 183 branches and 348 ATMs.

During FY2015, the bank reported a total income of Rs. 2,356.49 Crores and a net profit of Rs. 207.18Crores with a comfortable regulatory capital adequacy ratio at 13.13% (Tier I capital standing at 12.74%) as on March 31, 2015.

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