# The Ratnakar Bank Limited

| Instrument | Rated Amount | June 2014 |
|---|---|---|
| Certificate of Deposit Programme | Rs. 1,500 crore (from Rs 1,000 crore) | [ICRA]A1+ (assigned) |

ICRA has assigned a rating of [ICRA] A1+ to the Rs 1500 crore (enhanced from Rs 1000 crore) Certificate of Deposit Programme of The Ratnakar Bank Limited (RBL). ICRA has a MAA- rating outstanding for the bank's fixed deposit programme and [ICRA]A1+ rating for the Short Term fixed Deposit Programme of the bank.

The ratings are supported by the bank's long track record, experienced senior management team, diversifying and growing non-interest revenue sources, comfortable regulatory capitalisation level of 14.64% as on March 31, 2014 and good asset quality. The ratings factor in the geographical concentration of operations with a high proportion of advances in Maharashtra, Karnataka and Delhi/NCR albeit moderating over last 3 years, the high operating costs given the growth phase of the Bank, decline in NIMs in FY14 with increase in cost of funds given the low CASA base and the relatively high concentration of deposits though improving in the recent past. ICRA also derives comfort from the experienced and stable management of the bank since the past 3 years when the transformation process began at the Bank during which the bank has shown strong growth rates. Going forward, the ability of the Bank to scale up its business volumes, in a fiercely competitive environment while managing the associated risks will remain a key rating sensitivity.

The gross advances of the bank grew by 54% in FY14 to Rs 9,835.05 crore as on March 31, 2014 with strong growth in the 'Retail and Financial inclusion' segment which increased in its share of total advances from 19% in FY13 to 31% in FY14. The portfolio of the bank is fairly diversified across sectors with NBFC constituting the majority of advances at 11.87% as on March'14. The asset quality of the bank has been fairly sound over the last few years with low slippages. However with relatively higher slippages during FY14, the asset quality indicators marginally weakened with the bank reporting Gross NPAs of 0.79% and net NPAs of 0.31% as compared to Gross NPAs of 0.40% and net NPAs of 0.10% as on March 31, 2013.

The Deposits of the Bank have grown by 39% in FY14 to Rs 11,598.60 crore as on March 31, 2014. The growth in Total deposits is concentrated in the Term Deposit segment, as a result of which the CASA% for the bank has remained at ~20% over the past two years, although absolute amount of CASA deposits has grown by 44%. During FY14, the bank has reported a marked decline in its Top-20 depositor concentration from ~36% in FY13 to ~24% in FY14. The low CASA levels coupled with adverse interest rate environment during the year have continued to adversely affect the bank's NIM which has contracted further from 2.55% in FY12-13 to 2.19% in FY13-14 due to higher cost of funds and increased leverage of capital.

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 FY14 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 the back of a robust credit growth, the interest income rose by 54% to Rs 1351.62 crore in FY14 and helped the bank report a 33% increase in Net Interest Income in FY14 to Rs. 341.63 crore. As a result of the increase in fee and Interest Income, the Total Income improved by 60% to Rs 1612.59 crore in FY14. However, despite the growth in Income, the profitability of the bank was limited by the increase in the operating expenses of the Bank as well as a one-time charge towards premium paid for acquisition of certain businesses during the year from Royal Bank of Scotland, India. The Bank was in an expansion phase in the past year - investing in marketing initiatives, technology improvement as well as increasing its number of branches and employee and sales force strength. This coupled with the acquisition of RBS business led to a significant increase in the operating expenses of the bank from Rs 849.07 crore in FY13 to Rs 1433.89 crore in FY14 and thus the Cost to Income Ratio of the bank deteriorated in FY14. Consequently, the PAT of RBL remained stable at Rs 92.66 crore in FY14 (Rs 92.47 crore in FY13). The capitalization of the Bank is comfortable with a CRAR of 14.64% (Tier I of 14.33%) as on March 31, 2014 as per Basel III. In Q4 FY14, the Bank successfully completed a capital raise of Rs.328 crore in which certain new marquee investors such as IFC, CDC Group and existing investors participated.

**Brief Background**

The Ratnakar Bank(RBL) 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 12 Indian states. It has a networth of Rs.2013 crore. In FY14, the bank reported a PAT of Rs 92.66 crore with an asset base of Rs 18,197 crore compared to a PAT of Rs 92.47 crore with an asset base of Rs 12,963 crore in FY13.

***June 2014***

*For further details please contact:*

*Analyst Contacts:*

**Mr. Karthik Srinivasan**, (Tel No. +91-22-61796365)
karthiks@icraindia.com

*Relationship Contacts:*

**Mr. L. Shivakumar**, (Tel. No. +91-22-61796393)
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: **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**<br>**Mr. L. Shivakumar**<br>Mobile: **9821086490**<br>Email: shivakumar@icraindia.com<br><br>1802, 18th Floor, Tower 3,<br>Indiabulls Finance Centre,<br>Senapati Bapat Marg,<br>Elphinstone, Mumbai 400013,<br>Board : +91-22-61796300; Fax: +91-22-24331390 | **Kolkata**<br>**Mr. Jayanta Roy**<br>Mobile: **+91 9903394664**<br>Email: jayanta@icraindia.com<br><br>A-10 & 11, 3rd Floor, FMC Fortuna<br>234/3A, A.J.C. Bose Road<br>Kolkata—700020<br>Tel +91-33-22876617/8839 22800008/22831411,<br>Fax +91-33-22870728 |
| **Chennai**<br>**Mr. Jayanta Chatterjee**<br>Mobile: **9845022459**<br>Email: jayantac@icraindia.com<br><br>5th Floor, Karumuttu Centre<br>634 Anna Salai, Nandanam<br>Chennai—600035<br>Tel: +91-44-45964300; Fax: +91-44 24343663 | **Bangalore**<br>**Bangalore**<br>**Mr. Jayanta Chatterjee**<br>Mobile: **9845022459**<br>Email: jayantac@icraindia.com<br><br>'The Millenia'<br>Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2,<br>Murphy Road, Bangalore 560 008<br>Tel: +91-80-43326400; Fax: +91-80-43326409 |
| **Ahmedabad**<br>**Mr. L. Shivakumar**<br>Mobile: **989986490**<br>Email: shivakumar@icraindia.com<br><br>907 & 908 Sakar -II, Ellisbridge,<br>Ahmedabad- 380006<br>Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231 | **Pune**<br>**Mr. L. Shivakumar**<br>Mobile: **989986490**<br>Email: shivakumar@icraindia.com<br><br>5A, 5th Floor, Symphony, S.No. 99, CTS 3909, Range Hills Road, Shivajinagar,Pune-411 020<br>Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231 |
| **Hyderabad**<br>**Mr. Jayanta Chatterjee**<br>Mobile: **9845022459**<br>Email: jayantac@icraindia.com<br><br>4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083<br>Tel:- +91-40-40676500 | |