RBL Bank Limited

Instrument/Facility	Amount in INR Crores	Rating Action (*June 2016*)
Basel III Compliant Tier II Bonds Programme	300	[ICRA]A+ (hyb) (stable) Assigned

ICRA has assigned the rating of [ICRA]A+ (hyb) to the Rs 300 Crore Basel III compliant Tier II bond programme of RBL Bank Limited(RBL/the bank). The outlook on the rating is stable. The letters "hyb" in parenthesis suffixed to a rating symbol stand for "hybrid", indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss-severity vis-à- vis conventional debt instruments. The rated Tier-II bonds are expected to absorb losses once "Point of Non Viability" (PONV) trigger is invoked.

ICRA also has ratings of [ICRA]A+(hyb) (stable) on Rs 500 Crores of Basel III compliant Tier II Bonds, the rating of [ICRA]A1+ on the Rs 2250 Crores Certificate of Deposits, 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, experienced senior management team, diversified non-interest revenue sources, limited exposure to stressed sectors, comfortable regulatory capitalisation levels (of 12.94% as on March 31, 2016) 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 lower proportion of low-cost deposits in the bank's 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 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 FY2016, the bank witnessed robust growth in its loan book (of around 47% YoY) with all segments witnessing sharp growth rates. RBL's Corporate and Institutional Banking segment witnessed an increase of around 56% in FY2016 and consequently, increased its share in the loan book to 39% as on March 2016 from 36% as on March 2015. Agriculture Finance(Agri), Development Banking and Financial Inclusion (DBFI), Commercial Banking (CB) and Retail Banking (RB) grew by 31%, 51%, 31% and 54%, respectively, in FY 2016 and therefore comprised about 8%, 15%[1], 21%**Error! Bookmark not defined.** and 17%**Error! Bookmark not defined.** of the bank's loan book. The bank's exposure to vulnerable sectors (such as Power, Commercial Real Estate, Construction) is relatively low and for a shorter tenure. The asset quality profile of the bank has deteriorated marginally during FY2016 (GNPA% stood at 0.98% as on March 2016 as compared to 0.77% as on March 2015) 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. As a result, RBL's ability to absorb asset quality shocks (as the loan book seasons) remains a key rating sensitivity.

Despite lowering of base rates, RBL protected its NIM/ATA during FY2016 (stable at 2.47%) by reducing its term deposit rates. The bank's operating performance drew further comfort from 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 Crores (RoE of 9.79%) in FY2016 vis-a-vis a PAT of Rs. 207.17 Crores (RoE of 9.29%) in FY2015.

During FY2016, RBL raised Rs. 488 Crores of equity capital from Asian Development Bank (ADB) and the UK government's development finance arm CDC Group Plc, among others in a pre-IPO round of fundraising. The bank's capitalization remains comfortably above regulatory requirements with a CRAR of 12.94% and Tier 1 CAR of 11.10% as on March 31, 2016. With the bank receiving the long-pending approval from SEBI to come out with its IPO, the capitalisation ratios are expected to strengthen in FY2017.

[1] As a proportion of total loan book as on March 31, 2016

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 2016, RBL operated out of 197 branches and 362 ATMs.

During FY2016, the bank reported a total income of Rs. 3234.85 Crores and a net profit of Rs. 292.49 Crores (RoE of 9.79%) with a comfortable regulatory capital adequacy ratio at 12.94% (Tier I capital standing at 11.10%) as on March 31, 2016.

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