February 14, 2022

RBL Bank Limited – Short-term rating reaffirmed; long-term and medium-term ratings remain on watch with developing implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II Bond Programme	800.00	800.00	[ICRA]AA-&; Rating remains on watch with developing implications
Medium-term Fixed Deposit Programme	-	-	MAA &; Rating remains on watch with developing implications
Short-term Fixed Deposit Programme	-	-	[ICRA]A1+; reaffirmed
Certificates of Deposit Programme	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Total	**6,800.00**	**6,800.00**	

**Instrument details are provided in Annexure*

Rationale

ICRA had placed the long-term and medium-term ratings of RBL Bank Limited (RBL) on watch with developing Implications following the appointment of a Nominee Director from the Reserve Bank of India (RBI) under Section 36AB of the Banking Regulation Act, 1949 and the granting of leave to its Managing Director & Chief Executive Officer (MD & CEO) by the board on December 25, 2021. While the deposit outflows spiked following these developments, the relatively high liquidity levels maintained by RBL helped meet the surge in demand from depositors comfortably in the ensuing weeks. Following the initial surge, the overall deposit outflows slowed gradually and deposits now stand higher compared to December 25, 2021, while the liquidity buffers remain adequate. ICRA will continue to monitor the deposit base for its sustained stability and the liquidity position over the near term as well as developments on the identification of a new MD & CEO. Additionally, the ratings will be monitored for the improved trajectory at the asset quality and earnings levels.

ICRA notes that RBL's internal capital generation has remained weak mainly due to slippages in the corporate book in FY2020, followed by the onset of the Covid-19 pandemic and the surge in delinquencies in the unsecured loans retail book (chiefly comprising credit cards, microfinance and business loans). Looking ahead, the threat of future waves of Covid-19, the performance of the restructured book and overdue loans in the retail segment will remain the key determinants of the asset quality, credit cost and profitability.

ICRA has also reaffirmed the short-term rating, given RBL's comfortable liquidity position and capital cushions. The rating also factors in ICRA's expectations that the bank's operating profitability will continue to absorb credit losses to a large extent without materially impacting its capital position and that it will maintain its solvency position below the negative rating trigger. Further, in the backdrop of recent events, RBL's ability to build a more granular and stable deposit base at competitive rates will be a key driver of its scale of operations. Moreover, its ability to shift towards secured granular retail assets will be key for a sustained improvement in profitability.

Key rating drivers and their description

Credit strengths

Comfortable capital position, though supported by capital raise – RBL's capital position remains comfortable, although losses in 9M FY2022 and a 7% YoY increase in the risk-weighted assets (RWAs) led to a moderation in the Tier I and CRAR metrics to 15.76% and 16.58%, respectively, as on December 31, 2021 from 17.10% and 17.90%, respectively, as on December 31, 2020. Moreover, the bank's capitalisation profile was supported by an equity raise of Rs. 1,566 crore in Q3 FY2021 and Rs. 2,701 crore in Q3 FY2020, which, in turn, helped offset the impact of the weak capital accretion witnessed during FY2020-9M FY2022.

Going forward, near to medium term headwinds for the asset quality could keep the credit costs elevated, although the operating profitability is expected to prevent a material impact on the capital position and solvency metrics. Additionally, RBL has guided towards no equity capital raising in the near term but may decide to raise growth capital once the operating environment improves.

Deposit levels stabilise, while liquidity buffers remain comfortable – Following the failure of a private bank in March 2020, RBL maintained high liquidity buffers, driven by the expansion of the deposit base by ~31% to Rs. 75,588 crore as on September 30, 2021 from Rs. 57,812 crore as on March 31, 2020, while net advances witnessed a degrowth of 3% during the same period. This, coupled with the equity raise, shored up the liquidity buffers for the bank with excess statutory liquidity (SLR) holding of Rs. 12,000-17,000 crore during April-December 2021, translating into excess SLR of 18-25% over and above the minimum regulatory ask of 18%.

However, following the appointment of a Nominee Director from the RBI and the granting of leave to the MD & CEO on December 25, 2021, RBL's deposit base contracted sequentially by 3% to Rs. 73,639 crore as on December 31, 2021. The contraction was arrested to some extent as a few wholesale deposits were raised in the last week of December 2021. Later, the deposit base continued to witness volatility for a few days but it gradually reached a level higher compared to the level as of December 25, 2021. Considering the surge in deposit outflows in March 2020 and December-January 2022, the bank is not expected to wind down excess liquidity sharply in the near term.

Credit challenges

High share of unsecured high-yielding retail loans drives asset quality pain – ICRA notes that the overall share of the high-yielding unsecured retail segments (mainly comprising credit cards, microfinance and unsecured business loans) remained relatively high at ~33% of advances as on December 31, 2021. This has been a source of asset quality challenges for RBL following the onset of the pandemic. The slippages in these segments due to the pandemic have mainly driven the fresh non-performing advances (NPA) generation to 5.54% in FY2021 and further to 7.73% (on an annualised basis) in 9M FY2022.

Despite the stress on the asset quality, the headline asset quality numbers, i.e. gross NPAs and net NPAs, saw relatively less deterioration because of the sizeable write-offs done by the bank (over FY2021-9MFY2022) since March 2020 and stood at 6% of the loans as on March 31, 2020. As a result, RBL's overall credit costs remained elevated, which, in turn, impacted its profitability and return metrics. Furthermore, the performance of the 3.5% (gross) standard restructured advances (largely secured) on December 31, 2021 will be critical for the asset quality and credit costs in FY2023. Overall, the restructured book together with the overdue advances in the retail segments and the BB & below corporate book remain sizeable in relation to RBL's capital and will remain a monitorable for incremental asset quality stress for the bank and its profitability.

Sub-optimal internal capital generation – RBL's profitability was impacted in FY2020 because of the asset quality pressure in the corporate loan segment and it weakened further in FY2021-9M FY2022 because of the pandemic-induced stress in the retail segment (especially unsecured retail). Despite the higher share of the higher-yielding unsecured retail book in recent years, high slippages, excess liquidity and operating costs led to a moderation in the core operating profitability to 2.4% of average total assets (ATA) in 9M FY2022 from 3.0-3.1% in FY2020-FY2021. This, coupled with elevated credit costs (2.3% of

ATA in FY2020, 2.5% in FY2021 and 3.4% annualised in 9M FY2022), resulted in weak return metrics, with the return on assets (RoA) turning negative (-0.4% in 9M FY2022) from 0.5-0.6% during FY2020-FY2021. The management has guided towards RoA of around 1% during Q4 FY2022-FY2023, although profitability for FY2022 is expected to remain sub-optimal. While the sub-optimal profitability has remained a key concern, going forward, ICRA expects the profitability to improve with control over slippages across verticals leading to lower credit costs and growth in advances driven by a more granular and competitively priced deposit franchise. Inability to improve the profitability incrementally over the next few quarters will be a key rating sensitivity.

Share of bulk deposits remains high – The pandemic-related impact on the existing portfolio and weaker credit demand weighed down the growth in net advances, which stood at Rs. 58,141 crore as on December 31, 2021 (Rs. 58,019 crore as on March 31, 2020). During this prolonged period of limited book growth, deposit accretion continued at a reasonable pace, with the share of low-cost current and savings accounts inching up to ~34% as on December 31, 2021 (~31% as on December 31, 2020 and 30% as on March 31, 2020) on a higher rate offering, although it continued to lag the private banks' (PVB) average of ~44-45%. Further, depositor concentration levels witnessed a moderation with the share of the top 20 depositors declining to 15.33% of total deposits as on March 31, 2021 from 18.83% as on March 31, 2020.

However, despite these relative improvements, the share of bulk deposits (>Rs. 2 crore) remains high for the bank (~50-60% of total deposits). The cost of interest-bearing funds remained above the PVB average at 4.94% in 9M FY2022 compared to 4.00% for PVBs (in H1 FY2022) and the overall differential in the cost of funds is likely to remain high as efforts to granularise the liability profile through investments in the branch network will bear fruit over the medium to long term.

Liquidity position: Adequate

RBL maintained its SLR at ~35-36% of net demand and time liabilities (NDTL) on the fortnightly reporting date of December 31, 2021, which was ~17-18% higher than the regulatory minimum of 18% and broadly in line with the levels maintained during April-December 2021. However, despite the high SLR holding, the high share of non-operational deposits means that the bank's daily average liquidity coverage ratio stood at 146% in Q3 FY2022 (155% in Q2 FY2022 and 134% in Q1 FY2022), which was comparatively lower than peer banks, although it remained well above the regulatory requirement of 100%. Subsequent to recent events, the overall deposits base has broadly stabilised, though RBL's ability to maintain a high rollover rate of deposits and improve the granularity of the deposit base will remain a key factor for sustaining liquidity.

Rating sensitivities

Positive/Negative Factors: The rating watch will be resolved upon the sustenance of the deposit base and liquidity position, the succession planning at the MD & CEO level, and the trajectory for the asset quality and earnings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	ICRA's Rating Methodology for Banks
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of RBL. However, in line with ICRA's limited consolidation approach, the capital requirement of the key subsidiary of the bank (i.e. RBL FinServe Limited) has been factored in.

About the company

Maharashtra-based RBL Bank Limited is a private sector bank established in 1943. It received the status of a scheduled commercial bank in 1959. The bank underwent a management change in FY2011, following which its corporate office was shifted to Mumbai. Apart from the management change, RBL underwent a change in shareholding in FY2011 with equity infusion from various private equity funds. From its erstwhile name of Ratnakar Bank Limited, it was renamed RBL Bank Limited in mid-2014. It was listed on the BSE and NSE with its initial public offering (IPO) in August 2016. As on December 31, 2021, RBL had 463 branches, 274 banking outlets, 1,424 business correspondent (BC) branches (including banking outlets) and 407 ATMs.

Key financial indicators (audited) – Standalone

RBL Bank Limited		FY2020	FY2021	9M FY2021	9M FY2022
Net interest income	Rs. crore	3,630	3,788	2,882	2,895
Profit before tax	Rs. crore	753	689	579	-372
Profit after tax	Rs. crore	506	508	432	-273
Net advances	Rs. crore	58,019	58,623	56,444	58,141
Total assets	Rs. crore	88,978	1,00,651	96,437	1,01,903
% CET	%	15.3%	16.6%	17.1%	15.8%
% Tier I	%	15.3%	16.6%	17.1%	15.8%
% CRAR	%	16.4%	17.5%	17.9%	16.6%
% Net interest margin / Average total assets	%	4.29%	3.99%	4.15%	3.81%
% Net profit / Average total assets	%	0.60%	0.54%	0.62%	-0.36%
% Return on net worth	%	4.78%	4.01%	4.98%	-2.90%
% Gross NPAs	%	3.62%	4.34%	1.84%	4.84%
% Net NPAs	%	2.05%	2.12%	0.71%	1.85%
% Provision coverage excl. technical write-offs	%	44%	52%	61.7%	62.9%
% Net NPA/ Core capital	%	11.5%	10.1%	3.3%	8.9%

Source: *RBL Bank Limited, ICRA Research*
Note: All calculations as per ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information

Disclosure: A member of the board of directors of ICRA Limited is also an Independent Director on the board of directors of RBL. This Director was not involved in any of the discussions and processes related to the rating of the instrument(s) mentioned herein.

Rating history for past three years

S No	Name of Instrument	Current Rating (FY2022)					Chronology of Rating History for the Past 3 Years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	February 14, 2022	Dec 31, 2021	FY2021	FY2020	FY2019	
							Feb 25, 2021	Jan 17, 2020	Feb 8, 2019	Aug 14, 2018
1	Certificates of Deposit	Short Term	6,000.00	4,400	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Short-term Fixed Deposits	Short Term	-	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Basel III Tier II Bonds Programme	Long Term	800.00	730.00^	**[ICRA] AA-&**	[ICRA] AA-&	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)
4	Medium-term Fixed Deposits	Medium Term	-	-	**MAA&**	MAA&	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)

& - Rating watch with developing implications

Removal of (hyb) suffix from Basel III instruments

In compliance with the circular issued by the Securities and Exchange Board of India (SEBI) on July 16, 2021 for standardising the rating scales used by credit rating agencies, ICRA has discontinued its practice of affixing the (hyb) suffix alongside the rating symbols for hybrid instruments. Accordingly, ICRA has removed the (hyb) suffix that was earlier being placed alongside the rating symbol for the hybrid instruments issued by RBL. The earlier and revised denotation of the rating for various instruments can be seen in the table above. This rating action only involves the removal of the (hyb) suffix and should not be construed as a change in the credit rating.

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Compliant Tier II Bond Programme	Highly Complex
Medium-term Fixed Deposit Programme	Very Simple
Short-term Fixed Deposit Programme	Very Simple
Certificates of Deposit Programme	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE976G08049	Basel III tier II bonds	Feb 16,2016	10.25%	May 16, 2022	200.00	[ICRA]AA-&
INE976G08056	Basel III tier II bonds	Mar 31, 2016	10.25%	Jun 30, 2022	200.00	[ICRA]AA-&
INE976G08064	Basel III tier II bonds	Sep 27, 2016	10.20%	Apr 15, 2023	330.00	[ICRA]AA-&
NA	Basel III tier II bonds	Yet to be placed	-	-	70.00	[ICRA]AA-&
NA	Certificates of deposit	Yet to be placed	-	7-365 days	1,600.00	[ICRA]A1+
INE976G16MO4	Certificates of deposit	Nov 24, 2021	3.95%	Mar 14, 2022	100.00	[ICRA]A1+
INE976G16MN6	Certificates of deposit	Sep 20, 2021	3.91%	Mar 11, 2022	300.00	[ICRA]A1+
INE976G16MM8	Certificates of deposit	Sep 20, 2021	3.91%	Mar 16, 2022	200.00	[ICRA]A1+
INE976G16MJ4	Certificates of deposit	Sep 2, 2021	3.93%	Feb 28, 2022	100.00	[ICRA]A1+
INE976G16MJ4	Certificates of deposit	Sep 1, 2021	3.93%	Feb 28, 2022	900.00	[ICRA]A1+
INE976G16MR7	Certificates of deposit	Jan 4, 2022	5.00%	July 5, 2022	400.00	[ICRA]A1+
INE976G16MP1	Certificates of deposit	Dec 30, 2021	5.00%	Jun 28, 2022	200.00	[ICRA]A1+
INE976G16MQ9	Certificates of deposit	Dec 30, 2021	4.00%	Feb 14, 2022	200.00	[ICRA]A1+
INE976G16MP1	Certificates of deposit	Dec 30, 2021	5.00%	Jun 28, 2022	500.00	[ICRA]A1+
INE976G16MP1	Certificates of deposit	Dec 30, 2021	5.00%	Jun 28, 2022	750.00	[ICRA]A1+
INE976G16MP1	Certificates of deposit	Dec 30, 2021	5.00%	Jun 28, 2022	250.00	[ICRA]A1+
INE976G16MP1	Certificates of deposit	Dec 30, 2021	5.00%	Jun 28, 2022	500.00	[ICRA]A1+
NA	Short-term fixed deposits	NA	NA	NA	-	[ICRA]A1+
NA	Medium-term fixed deposits	NA	NA	NA	-	MAA&

Source: *RBL Bank Limited,& - Rating watch with developing implications*

Key features of rated debt instruments

The servicing of the Basel III Tier II Bonds is expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. The Basel III Tier II Bonds have equity-like loss-absorption features. Such features may translate into higher loss severity vis-à-vis conventional debt instruments.

Annexure-2: List of entities considered for limited consolidated analysis

Company Name	RBL Bank Ownership	Consolidation Approach
RBL FinServe Limited	100%	Limited Consolidation

Source: RBL Bank Limited

ANALYST CONTACTS

Karthik Srinivasan
+91 22 6114 3444
karthiks@icraindia.com

Anil Gupta
+91 124 4545 314
anilg@icraindia.com

Aashay Choksey
+91 22 6114 3430
aashay.choksey@icraindia.com

Samiksha Karnavat
+91 22 6114 3471
samiksha.karnavat@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches