RBL Bank Limited

September 27,2023

Facilities/Instruments@	Amount (₹ crore)	Rating[1]	Rating Action
Long-term instruments-Bonds-Tier-II Bonds	800.00	CARE AA-; Stable	Reaffirmed

@Details of instruments/facilities in Annexure-1.

Tier-II Bonds under Basel III are characterised by a point-of-non-viability (PONV) trigger due to which the investor may suffer a loss of principal. PONV will be determined by the Reserve Bank of India (RBI) and is a point at which the bank may no longer remain a going concern on its own unless appropriate measures are taken to revive its operations, and thus, enable it to continue as a going concern. In addition, the difficulties faced by a bank should be such that these are likely to result in financial losses, and raising the Common Equity Tier-I capital of the bank should be considered as the most appropriate way to prevent the bank from turning non-viable.

Rationale and key rating drivers

The rating assigned to the debt instruments of RBL Bank Limited (RBL Bank) factors in the long track record of operations, healthy capitalisation levels supported by regular capital raising in the past and improvement in financial performance of the bank in FY23 and Q1FY24 due to moderation in credit costs which had increased during FY22 due to increased provisioning largely on unsecured retail products on account of COVID-19-induced stress.

The bank has witnessed an increase in the franchise over the last few years and is focusing towards increasing the proportion of secured retail products. The bank also has been working towards increasing the granularity in deposits over the years, which has led to improvement in the proportion of Current Account Savings Account (CASA) and retail deposits, although the dependence on bulk deposits remains relatively high leading to the higher cost of funds.

The rating is constrained on account of high operating cost, moderate asset quality parameters, moderate but improving profitability, and relatively higher reliance on bulk deposits.

CARE Ratings Limited (CARE Ratings) notes that the ability of the bank to improve the proportion of the CASA and retail deposits, its ability to expand the percentage of the secured retail loans in the total portfolio, and improvement in the asset quality parameters will remain key for its performance.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in profitability with return on total assets (ROTA) over 1.5% on a sustained basis.
- Significant increase in size of total business & geographical diversification of advances while maintaining comfortable capitalisation.

Negative factors

- Decline in capital adequacy ratio (CAR) with cushion over the minimum regulatory requirement falling below 3%.
- Decline in asset quality with net non-performing assets (NNPA) ratio above 3.0% on a sustained basis.
- Decline in profitability with ROTA below 0.5% on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

The stable outlook is on account of improvement in the performance, retail and wholesale mix, proportion of retail deposits of the bank during the year which is expected to continue in the near term and improvement in the asset quality parameters of the bank.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:

Key strengths

Long track record with increase in franchise

RBL Bank was incorporated in 1943 in Kolhapur (Maharashtra) and was accorded scheduled commercial bank status in the year 1959. It has been in operation for more than 70 years in the areas of Maharashtra and Karnataka. The franchise of the bank is spread across the country with a network of 1,635 touch points including 520 branches, 298 banking outlets and 1,115 business correspondence branches as on June 30, 2023. During FY23, the bank's total business (advances + deposits) stands improved at ₹158,723 crore as on June 30, 2023.

During FY23, the advances of the bank grew by 16.97% from ₹60,022 crore as on March 31, 2022, to ₹70,209 crore as on March 31, 2023, and further to ₹73,087 crore as on June 30, 2023. Of the total advances, around 56% of the advances were retail advances including products like credit cards and personal loans (24%), business loans (10%), microfinance loans (9%) and housing loans (6%), while 44% were wholesale advances (corporate and institutional banking being 34% and commercial banking being 10%).

The deposit base of the bank has witnessed continuous increase owing to its focus on granularisation. The total deposits increased by 7.44% from ₹79,007 crore as on March 31, 2022, to ₹84,887 crore as on March 31, 2023, and to ₹85,636 crore as on June 30, 2023. With focus on CASA and granular retail deposits, the bank's CASA proportion has increased from 35.29% as on March 31, 2022, to 37.36% as on March 31, 2023. However, it remained lower compared to peer banks. The bank has managed to increase the proportion of the retail term deposits to 41% as on June 30, 2023, from 33% as on March 31, 2022. CARE Ratings notes that the ability of the bank to further granulise the deposit profile with improvement in the cost of funds is a key rating sensitivity.

The board of directors of the bank is headed by Prakash Chandra who is non-executive part-time Chairman. He is an Advocate and a member of the High Court and Supreme Court Bar Associations. He has served 38 years as an Indian Revenue Officer at the Indian Revenue Service (IRS) in the Government of India. The operations of the bank are headed by R Subramaniakumar as MD & CEO from June 23, 2022, which will be for a period of 3 years. He is a veteran banker with 40 years of experience. The bank has put in place an experienced management team to head various functions.

Comfortable capital adequacy supported by capital raised over the period

The bank has demonstrated strong capital-raising ability over the years which has helped the bank to maintain comfortable capitalisation levels despite the strong growth over the years. The bank raised equity capital (including premium) of ₹1,566 crore in November 2020, with an objective to strengthen its balance sheet, to meet any possible contingencies owing to COVID-19 and position the bank well for business opportunities which helped the bank maintain adequate capitalisation levels while it witnessed increase in provisioning during the pandemic. In May 2022, the bank raised Tier-II capital of 100 million USD from U.S. International Development Finance Corporation. The bank reported CAR of 16.68% (March 31, 2023: 16.92%) with Common Equity Tier-I (CET I) ratio of 15.05% as on June 30, 2023 (March 31, 2023: 15.25%), as against CAR of 16.82% with CET I ratio of 16.21% as on March 31, 2022. CARE Ratings expects the bank to maintain CAR of 14% on a steady state basis, which would help the bank fund its advances growth.

Key weaknesses

Moderate asset quality indicators:

The bank witnessed an improvement in asset quality parameters during FY23 and Q1FY24. The gross NPA (GNPA) ratio and NNPA ratio of the bank decreased to 3.22% and 1.00%, respectively, as on June 30, 2023 from 4.4% and 1.34% as on March 31, 2022, respectively, due to the higher amount of write-offs and reduction in the slippages. The slippage ratio of the bank has reduced from 6.87% in FY22 to 4.65% in FY23; however, continues to be relatively high. Although the GNPA and NNPA ratios of the bank have improved, they still continue to be high compared to its peers. The net stressed assets to net worth ratio of the bank have reduced from 21.38% as on March 31, 2022, to 12.29% as on June 30, 2023, due to the recovery in the standard restructured accounts and reduction in security receipts. The bank had provision coverage ratio (PCR) of 70% (excluding technical write-offs) as on June 30, 2023 (March 31, 2022: 70%).

Sustenance in the profitability to be monitored:

During FY23, the bank reported an increase in the ROTA to 0.8% due to the increase in the total income to ₹11,619 crore from ₹10,516 crore in FY22 on account of increase in the net interest margin (NIM) of the bank due to the higher rise in the yield on advances than the rise in the cost of deposits and increase in the non-interest income of the bank from ₹2,341 crore in FY22 to ₹2,489 crore in FY23. Although there has been a rise in the interest income, the bank's pre-provisioning operating profit (PPOP) has reduced from ₹2,745 crore to ₹2,202 crore, the same is due to the increase in the interest expenses of the bank during the year. The cost of deposits of the bank have increased from 4.65% in FY22 to 4.89% in FY23, although the granularisation of deposits and increase in the proportion of the CASA deposit of the bank have helped to control the increase in the cost of deposits; and due to the increase in the borrowings of the bank from ₹10,363 crore March 31, 2022, to ₹12,179 crore as on March 31, 2023. Furthermore, the credit cost of the bank reduced significantly during FY23 to 0.92% from 2.79% in FY22. Thus, the increased total income of the bank and reduced credit cost has led to the bank reporting profit after tax (PAT) of ₹883 crore for FY23 as against the losses of ₹75 crore for FY22.

High operating cost:

The bank's operating expenses have been increasing on a y-o-y basis as the bank is in the growth phase of operations. During FY23, the bank has added 15 new branches, i.e., from 502 branches in FY22 to 517 branches in FY23 and has increased the employee base from 9,257 to 11,032. The cost to income ratio of the bank has increased from 56.88% in FY22 to 68.27% in FY23. Going forward, CARE Ratings observes that as the bank has plans of adding 50-75 branches annually over the next three years, the operating expense of the bank is expected to remain high.

Concentration risk in deposits with improvement:

The deposit base of the bank is fairly concentrated on account of higher reliance on bulk deposits, as compared to larger peers, with top 20 depositors accounting for 16.23% of total deposit as on March 31, 2023 (as on March 31, 2022: 16.56%). As on June 30, 2023, the percentage of the bulk deposits stood at 58.71% vis-à-vis 66.87% as on March 31, 2022. With the granularisation in deposits, CARE Ratings expects the same to improve. Furthermore, the bank also faces a geographical concentration risk. The top three states account for 66% and 64% of the total advances as on March 31, 2022, and June 30, 2023, respectively.

Liquidity: Adequate

As on June 30,2023, the asset liability mismatch of the bank remains comfortable with positive cumulative mismatches till six months' time bucket. Furthermore, as on June 30, 2023, the bank has maintained liquidity coverage ratio (LCR) of 129% as against a minimum LCR requirement of 100%.

Environment, social, and governance (ESG) risks

The bank has an Environmental and Social Risk Governance (ESG) Committee which oversees the implementation of the ESG, i.e., banks' response to material environmental and social issues, including sustainability policy implementation. The bank conducts an extensive E&S risk assessment process, screening large corporate lending and project financing transactions against their 'exclusion list', which prohibits funding for weapons, alcoholic beverages (excluding beer and wine), tobacco, gambling, and similar activities. This assessment applies to wholesale transactions with exposure exceeding US$ 5 million and a tenure of over 12 months, other than those industries falling under the Central Pollution Control Board Red List for which threshold is US$ 1 million. If identified, the bank collaborates with clients to develop a Corrective Action Plan (CAP) to mitigate these risks, which is incorporated into the sanction letter and closely monitored. Unmitigated or residual risks are escalated to top management for resolution.

Applicable criteria

Definition of Default
Financial Ratios - Financial Sector
Rating Outlook and Rating Watch
Bank
Rating Basel III - Hybrid Capital Instruments issued by Banks

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Financial Services	Financial Services	Banks	Private Sector Bank

RBL Bank Limited (erstwhile Ratnakar Bank) is a Kolhapur-based small-sized old private sector bank which was incorporated in 1943. The bank was established by the efforts of Babgonda Patil, an advocate from Sangli, and Gangaram Chougule, a merchant from Kolhapur. The primary aim of the bank was to cater to the banking requirements of the low- and middle-income segment engaged in trade and commerce. The bank gained the status of a scheduled commercial bank in 1959. The bank's total business book stood at ₹155,096 crore as on March 31, 2023, as against ₹139,028 crore as on March 31, 2022. As on date, bank's operations are spread across 517 branches with 301 branches solely in metro cities. The bank's business correspondence branches stood at 1,166 as on March 31, 2023, out of which 821 branches were of RBL FinServ limited (RFL), a wholly-owned subsidiary of RBL Bank.

Brief Financials (₹ crore)	31-03-2021 (A)	31-03-2022 (A)	31-03-2023 (A)	30-06-2023 (UA)
Pre-provisions operating profit (PPOP)	3,091	2,745	2,202	647
PAT	508	-75	883	288
Cost to income ratio	47.12	56.88	68.27	66.48
ROTA (%)	0.54%	-0.07%	0.80%	0.98%
Net NPA (%)	2.12	1.34	1.10	1.00

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating assigned along with Rating Outlook
Bonds-Tier-II Bonds	-	04-Oct-2018	Proposed	Proposed	800.00	CARE AA-; Stable

Annexure-2: Rating history of last three years

Sr. No.	Name of the Instrument/ Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Bonds-Tier-II Bonds	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (03-Oct-22)	1)CARE AA-; Stable (31-Dec-21) 2)CARE AA-; Stable (06-Oct-21)	1)CARE AA-; Stable (08-Oct-20)

*Long term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities

Not Applicable

Annexure-4: Complexity level of various instruments rated

Sr No	Name of the Instrument	Complexity Level
1	Bonds-Tier-II Bonds	Complex

Annexure-5: Lender details

Not applicable

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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