December 31, 2021

# RBL Bank Limited – Long-term and Medium-term ratings placed 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- &; Placed on watch with developing implication |
| Medium-term Fixed Deposit Programme | - | - | MAA &; Placed on watch with developing implication |
| Short-term Fixed Deposit Programme | - | - | [ICRA]A1+ outstanding |
| Certificate of Deposit Programme | 6,000.00 | 6,000.00 | [ICRA]A1+ outstanding |
| **Total** | **6,800.00** | **6,800.00** | |

**Instrument details are provided in Annexure-1*

## Rationale

## Material Event

RBL Bank Limited (RBL) announced the appointment of a Nominee Director from the Reserve Bank of India (RBI), the banking regulator, under Section 36AB of the Banking Regulation Act, 1949 via a stock exchange filing dated December 25, 2021. In a separate filing on the same day, RBL announced that its board has approved the request for granting leave to its Managing Director (MD) & Chief Executive Officer (CEO; Mr. Vishwavir Ahuja) with immediate effect. Further, RBL announced the appointment of Mr. Rajeev Ahuja as the interim MD & CEO, who was serving as the Executive Director of the bank. Following these announcements, the RBI also issued a press release on December 27, 2021 stating that the bank is well capitalised and its financial position remains stable and satisfactory. The RBI also clarified that an Additional Director is appointed as and when it is felt that the board of a bank needs to ensure closer support in regulatory and supervisory matters.

## Impact of Material Event

Given the above developments, ICRA has placed the long-term and medium-term ratings on watch with developing implications. ICRA will continue to monitor the developments related to the deposit levels as this could have a material impact on the liquidity position of the bank and will take appropriate rating action as may be required.

**Deposit levels and liquidity position will remain key monitorables in the near term** – RBL has seen some moderation in the share of the top 20 depositors, which stood at 15.3% of total deposits as on March 31, 2021 compared to 18.8% as on March 31, 2020. However, bulk deposits (ticket size > Rs. 2 crore) still account for a relatively high share in the overall deposits. Accordingly, the bank's ability to roll over deposits as well as demonstrate a reasonable degree of stability in its deposits base will remain critical for sustaining liquidity in the near term. ICRA takes note of the adequate liquidity surplus available with the bank, which have been expanding over the last 18-20 months, supported by the degrowth in advances during FY2021-H1 FY2022, while deposit accretion continued at a steady pace (net advances were lower by 3% while deposits were higher by ~31% during the aforementioned period). Accordingly, the bank has maintained excess statutory liquidity ratio (SLR) of Rs. 12,000-17,000 crore during April-September 2021, translating into excess SLR of 18-25% over and above the minimum regulatory ask of 18%. As a result, RBL has reported positive cumulative mismatches in all its near-term maturity buckets that are <1 year as per the structural liquidity statement as on September 30, 2021. Moreover, it has been maintaining a

comfortable liquidity coverage ratio of 153% as on December 24, 2021 (155% in Q2 FY2022 and 134% in Q1 FY2022) against the regulatory requirement of 100%. ICRA will continue to monitor the bank's deposit levels and liquidity position in the coming weeks. The deposit base will also be critical for RBL's future scale of operations and hence its profitability and internal capital generation.

**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 and microfinance) remains relatively high at ~31-32% of advances. This has been a source of the bank's asset quality challenges following the onset of the Covid-19 pandemic. The slippages in these segments have mainly driven the fresh non-performing advances (NPA) generation to 5.54% in FY2021 and further to 8.92% (on an annualised basis) in H1 FY2022 (worsened due to the second wave of the pandemic). 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 since March 2020. As a result, RBL's overall credit costs remained elevated, which, in turn, impacted its profitability and return metrics. The standard restructured loan book stood at 3.7% of standard advances as on September 30, 2021.

**Internal capital generation has remained weak** – RBL's profitability was impacted in FY2019 and FY2020 because of the asset quality pressure in the corporate loan segment. The profitability remained weak in FY2021, because of the pandemic-induced stress in the retail segment (especially the unsecured retail), and is likely to remain so in FY2022. The threat of a third wave of Covid-19 infections, resulting in continued stress on the asset quality could potentially delay the recovery in the profitability levels.

**Capital position is comfortable, though supported by capital raise** – RBL raised equity capital of Rs. 1,566 crore in Q3 FY2021 and Rs. 2,701 crore in Q3 FY2020. Hence, despite the weak internal capital generation, it has been able to maintain a comfortable capital position with the Tier I and CRAR at 15.54% and 16.33%, respectively, as on September 30, 2021.

Please refer to the following link for the previous detailed rationale that captures the key rating drivers and their description, liquidity position and rating sensitivities: **Click here**

## 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 with Mr. Vishwavir Ahuja joining as the MD and CEO in June 2010. Following this, RBL's corporate office shifted to Mumbai. Apart from the management change, the bank 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 September 30, 2021, RBL had 445 branches, 271 banking outlets, 1,435 business correspondent (BC) branches (including banking outlets) and 386 ATMs.

## Key financial indicators (audited)

| RBL Bank Limited | | FY2020 | FY2021 | 6M FY2021 | 6M FY2022 |
|---|---|---|---|---|---|
| Net interest income | Rs. crore | 3,630 | 3,788 | 1,973 | 1,885 |
| Profit before tax | Rs. crore | 753 | 689 | 384 | -579 |
| Profit after tax | Rs. crore | 506 | 508 | 285 | -429 |
| Net advances | Rs. crore | 58,019 | 58,623 | 56,162 | 56,009 |
| Total assets | Rs. crore | 88,978 | 1,00,651 | 93,347 | 1,04,474 |
| | | | | | |
| % CET | % | 15.3% | 16.6% | 15.1% | 15.5% |
| % Tier I | % | 15.3% | 16.6% | 15.1% | 15.5% |
| % CRAR | % | 16.4% | 17.5% | 16.5% | 16.3% |
| | | | | | |
| % Net interest margin / Average total assets | % | 4.29% | 3.99% | 4.33% | 3.68% |
| % Net profit / Average total assets | % | 0.60% | 0.54% | 0.63% | -0.84% |
| % Return on net worth | % | 4.78% | 4.01% | 5.32% | -6.88% |
| | | | | | |
| % Gross NPAs | % | 3.62% | 4.34% | 3.34% | 5.40% |
| % Net NPAs | % | 2.05% | 2.12% | 1.38% | 2.14% |
| % Provision coverage excl. technical write-offs | % | 44% | 52% | 59.4% | 61.7% |
| % Net NPA/ Core capital | % | 11.5% | 10.1% | 7.4% | 10.1% |

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

*Note: All calculations as per ICRA Research*

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

**Disclaimer:** 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) | Dec 31, 2021 | FY2021 Feb 25, 2021 | FY2020 Jan 17, 2020 | FY2019 Feb 8, 2019 | FY2019 Aug 14, 2018 |
| 1 | Certificates of Deposit | Long Term | 6,000.00 | 4,350 | [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+ |
| 3 | Basel III Tier II Bonds Programme | Long Term | 800.00 | 730.00^ | [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 (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 |
| Certificate 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 | 1,650.00 | [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+ |
| INE976G16MH8 | Certificates of deposit | Jul 16, 2021 | 3.99% | Jan 13, 2022 | 150.00 | [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 | 400.00 | [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 | NA | [ICRA]A1+ |
| NA | Medium-term fixed deposits | NA | 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*

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Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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