March 23, 2017

RBL Bank Limited

Instrument	Amount (Rs. Crore)	Rating Action
Certificate of Deposits	3000	[ICRA]A1+; Reaffirmed
Basel III Compliant Tier II Bond Programme	800	[ICRA]A+ (hyb) ; Outlook revised from stable to positive
Medium Term Fixed Deposits	-	MAA-; Outlook revised from stable to positive
Short Term Fixed Deposits	-	[ICRA]A1+

Rating Action

ICRA has reaffirmed the short-term rating of [ICRA]A1+ assigned earlier to the Rs 3000 crore certificate of deposits programme and short term fixed deposits programme of RBL Bank Limited(RBL). ICRA has also reaffirmed long-term rating of [ICRA]A+(hyb) on Rs 800 crore of Basel III compliant Tier II Bonds and the medium-term rating of MAA- on the Fixed Deposits Programme of the bank. The outlook on the long-term and medium term ratings is revised from stable to positive.

Rationale

The positive outlook follows the equity capital raising of Rs 832 crore by the bank through the initial public offer (IPO) in August 2016, which has not only improved the current capitalization profile but also improved the ability of the bank to raise capital for future growth. The positive outlook also factors in gradual improvement in the liability profile supported by decline in deposit concentration, share of bulk deposits and elongation in the average maturity of deposits raised by the bank despite high growth in advances. The asset quality indicators also continue to remain comfortable.

The ratings continue to be supported by the bank's long track record, its experienced senior management team, diversified non-interest revenue sources and comfortable regulatory capitalisation levels (of 14.6%[1] as on December 31, 2016). ICRA notes the concentration of advances/exposures in terms of geography and the corporate groups. While the geographical diversification continues with the states of Maharashtra, Karnataka and Delhi/NCR accounting for 59.1% of the advances as on December 31, 2016 as against 96.4% as on March 31, 2013, the top-20-group exposures remain high at 24% of the total exposure as on December 31, 2016, though the same is towards corporates with relatively better credit profile. Due to robust loan book growth in the recent past, the loan book is relatively unseasoned with higher share of unsecured portfolio (~20% of advances as on December 31, 2016), majority of it being micro-finance loans where the borrower profile is vulnerable to economic and other shocks. ICRA notes that post-demonetisation; the collections against microfinance loans continues to remain healthy till January 2017, though it will remain a monitorable in near-term. Notwithstanding the gradual improvement in liability profile as highlighted earlier, the deposits of the bank still remain concentrated with relatively high share of bulk deposits and lower proportion of low-cost deposits in its resource profile. With strong growth plans of the bank, the ability to diversify the mix of assets and liabilities, maintaining comfortable asset quality and capitalisation levels will remain key rating sensitivities.

[1] Including profits for 9MFY17

Key Rating Drivers

Credit Strengths

- Stable and experienced management team
- Strong capitalisation level with capital raising of Rs 832 crore from IPO in August 2016 which augmented the CRAR to 14.60% (Tier I of 12.10%) as on December 31, 2016
- Comfortable asset quality numbers with Gross NPA at 1.06% and net NPA at 0.52% as on December 31, 2016
- Steady growth in business volumes while achieving geographical diversification of advances and gradually improving liability profile

Credit Challenges

- Concentration of advances towards few groups and geographies; though it is mitigated by exposures to groups with better credit profile, shorter duration of the wholesale loan book and gradually diversifying operations to new geographies outside the states of Maharashtra, Karnataka and Delhi/NCR
- Low proportion of CASA deposits (23.20% as on December 31, 2016) and consequently higher share of bulk deposits in the resource profile; nevertheless as the bank is scaling up its branch network and offering better rates on its saving account balances, the liability profile is improving
- Higher exposure towards unsecured lending which mostly includes MFIs where the borrowers are vulnerable to economic and other shocks and post-demonetisation event it might take some time for replenishment of borrower's income level
- Ratio of operating expenses to operating Income remains high as the bank is on an expansion path

- **Key Rating Sensitivities**

- Ability to improve the granularity in asset and liability profile while achieving growth
- Ability to diversify geographically to reduce regional concentration
- Ability to maintain asset quality and strong capitalisation as the bank targets high growth

Description of key rating drivers highlighted above:

The ratings are supported by the bank's long track record, its experienced senior management team, diversified non-interest revenue sources, limited exposure to stressed sectors, comfortable regulatory capitalisation levels (of 14.6% as on December 31, 2016 and sound asset quality indicators.

During FY2016, the bank witnessed robust growth in its loan book (of around 47% YoY) with all segments witnessing robust growth rates. In 9MFY2017, the bank further grew its loan portfolio by 26% to Rs 26,773 crore as on December 31, 2016. Amongst the various business segments, the bank saw a sharp growth of 57% in FY2016 (41% in 9MFY2017) in the Corporate and Institutional Banking (C&IB) segment followed by Branch and Business Banking (BBB), Development Banking and Financial Inclusion (DB&FI), Agriculture Finance(Agri) and Commercial Banking (CB) which grew by 54%, 51%, 32% and 31% respectively, in FY 2016 (38%, 17%, -1% and 7% in 9MFY2017 on sequential basis). In 9MFY2017, all the segments saw a robust growth except the Agri segments which contracted during the period while CB and DB&FI segment also saw cautious growth during 9MFY2017 as these segments saw reduced credit off-take post demonetization. ICRA also notes that the advances to micro-finance borrowers exhibited satisfactory collections post the demonetisation event in November 2016 and the overdues in this portfolio remains comfortable, though it will remain a monitorable in near term.

As on December 31, 2016, the share of C&IB, BBB, DB&FI, Agri and CB stood at 43%, 18%, 14%, 7% and 19% respectively of the advances as against 39%,17%,15%,8% and 21% respectively at the end of March 31, 2016. The bank's exposure to vulnerable sectors (such as Power, Iron & Steel, Aviation and Construction) stood at 14.9% as on December 31, 2016 as against 12.02% as on March 31 2016 and is for short tenure along with sizeable non-fund exposure to construction sector. The asset quality profile of the bank has deteriorated marginally during FY2016 and 9MFY2017 (GNPA% and NNPA% of 1.06% and 0.52% respectively, as on December 31, 2016 and 0.98% and 0.59% respectively as on March 31, 2016 as against 0.77% and 0.27% respectively as on March 31, 2015) due to stress in the CB and Agri segment, 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. Also the growth has been driven largely by C&IB segment; as a result it has high exposure to the corporate segment, which accounts for 43% of the loan book with top-20 exposures accounting for 24% of the total exposure as on December 31, 2016 as compared to 25% level as on March 31, 2016, which is also higher as compared to industry average. While the non-wholesale businesses are growing at a faster clip, with the wholesale businesses (C&IB and CB) comprising of around 62% of the loan book of the bank, it is expected to take longer before the size of non-wholesale businesses match the wholesale businesses. Hence, RBL's ability to absorb asset quality shocks (as the loan book seasons) remains a key rating sensitivity.

Asset growth has been supported by the healthy growth in deposits, which grew by 42% in FY2016 and by 46% (YoY) in 9MFY2017. The deposits mix consists of 23.2% of CASA and 66% of bulk deposits (deposits above Rs 1 crore) as on December 31, 2016 as against CASA of 18.60% and 73% share of bulk deposit in total deposits as on March 31, 2016. To diversify the deposit profile, the bank has been offering higher interest rates on its saving accounts, which has helped the bank to increase its CASA at a healthy pace (grew by 44% and 53% in FY2016 and 9MFY2017 respectively). The CASA growth during 9MFY2017 was partly attributed to demonetization and hence stability of this number remains to be seen. Nevertheless, the CASA ratio remains lower than the industry average.

Despite lowering of base rates, RBL has been able to protect its Net interest Margins (NIM/ATA) during FY2016 (stable at 2.47%) by reducing its cost of funds and better mix of assets. The bank's operating performance was further supported by 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 crore (RoE of 9.79%) in FY2016 vis-a-vis a PAT of Rs. 207.17 crore (RoE of 9.29%) in FY2015. During 9MFY2017, the NIMs expanded on account of the increase in CASA base and non-interest income also saw a healthy rise on Y-o-Y basis. The improvement in operating income was partly offset by the increase in credit costs and the bank reported a net profit of Rs 316 crore in 9MFY2017 (after provisioning for the premium of Rs 28.46 crore paid on investment for 9.9% stake in Utkarsh Microfinance Ltd.) compared to a net profit of Rs 208 crore in 9MFY2016.

In August 2016, RBL raised Rs 832 crore through initial public offering of its equity shares which strengthened the bank's capitalization. The bank's capitalization remains comfortably above regulatory requirements with a CRAR of 14.6% and CET1/Tier 1 CAR of 12.1% as on December 31, 2016.

Analytical approach:
To arrive at the ratings ICRA has taken into account the standalone financials of the bank along with the key operational and business developments in the recent past.

Links to applicable Criteria:
Rating Methodology for Banks

Bank Profile

RBL Bank Limited is a Kolhapur incorporated private sector bank established in 1943. Following the management change in 2010, the Bank has established its Corporate Office in Mumbai. Over last six years, it is one of the fastest growing scheduled commercial banks with a presence across 16 Indian states and union territories. As on 31 March 2016, RBL operated out of 197 branches and 362 ATMs. The total branch count stood at 215 as on December 31, 2016.

Recent Results

During FY2016, the bank reported a total income of Rs. 3234.85 crore and a net profit of Rs. 292.49 crore (RoE of 9.79%). In 9MFY2017, the bank reported a net profit of Rs 316 crore[2] compared to a net profit of Rs 208 crore in 9MFY2016 with a comfortable regulatory capital adequacy ratio at 14.6% (Tier I capital standing at 12.1%) as on December 31, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable
Rating History for last three years:

Table: Rating History

Sr. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years					
					FY2017		FY2016		FY2015	
		Type	Rated amount (Rs. crore)	March 2017	December 2016	June 2016	February 2016	July 2015	August 2014	July 2014
1	Certificate of Deposits	Short Term	3000	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Short Term Fixed Deposits	Short Term	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
2	Basel III Compliant Tier II Bond Programme	Long Term	800	[ICRA]A+ (hyb) (positive)	[ICRA]A+ (hyb) (stable)	[ICRA]A+ (hyb) (stable)	[ICRA]A+ (hyb) (stable); Assigned	NA	NA	NA
3	Medium Term Fixed Deposits	Long Term	NA	MAA- (positive)	MAA- (stable)	MAA- (stable)	MAA- (stable)	MAA- (stable)	MAA- (stable)	MAA- (stable)

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

[2] Net profit is after exceptional item in Q2FY2017 for the bank's investment in Utkarsh Microfinance Ltd.

Annexure-1

Details of Instrument

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Current Rating and Outlook
Basel III tier II bonds	16th February 2016	10.25%	16th May 2022	200.00	[ICRA]A+(hyb) (positive)
Basel III tier II bonds	31st March 2016	10.25%	30th June 2022	200.00	[ICRA]A+(hyb) (positive)
Basel III tier II bonds	27th September 2016	10.20%	15th April 2023	330.00	[ICRA]A+(hyb) (positive)
Basel III tier II bonds	Yet to be placed			70.00	[ICRA]A+(hyb) (positive)
Certificate of Deposits			7-365 days	3000.00	[ICRA]A1+
Short Term Fixed Deposits	NA	NA	NA	NA	[ICRA]A1+
Medium Term Fixed Deposits	NA	NA	NA	NA	MAA- (positive)

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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