September 14, 2022 (Revised)

RBL Bank Limited: Ratings reaffirmed and rating withdrawn for matured instrument; rating removed from Watch with Developing Implications and Stable outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II Bonds	400.00	400.00	[ICRA]AA- reaffirmed; removed from Watch with Developing Implications and Stable outlook assigned
	400.00	-	[ICRA]AA- reaffirmed and withdrawn; removed from Watch with Developing Implications and Stable outlook assigned
Fixed Deposits	-	-	[ICRA]AA- reaffirmed; removed from Watch with Developing Implications and Stable outlook assigned
Short-term Fixed Deposits	-	-	[ICRA]A1+; reaffirmed
Certificates of Deposit Programme	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Total	**6,800.00**	**6,400.00**	

**Instrument details are provided in Annexure I*

Rationale

The removal of the rating from Watch with Developing Implications considers the stability in RBL Bank Limited's deposit base over the last few months following the initial volatility/contraction seen immediately after the appointment of a Nominee Director by the Reserve Bank of India (RBI) under Section 36AB of the Banking Regulation Act, 1949 and the grant of leave to the previous Managing Director & Chief Executive Officer (MD & CEO) by the board on December 25, 2021. Moreover, RBL's deposit base expanded beyond the level preceding the events during Q4 FY2022-Q1 FY2023, although muted book growth during this period ensured that the liquidity surplus remained at a satisfactory level. Furthermore, the ratings take into account the appointment of the new MD & CEO, which brings closure to the succession process at the bank.

While the asset quality metrics and profitability were impacted due to high slippages following the onset of the Covid-19 pandemic, leading to a surge in delinquencies mainly from the unsecured retail book (mainly comprising credit cards, microfinance and business loans), incremental slippages and credit costs are expected to remain lower compared to the materially higher levels seen over the last two years. Going forward, the performance of the restructured book and the book rated BB and below and overdue loans will remain the key determinants of the asset quality, credit costs and profitability. ICRA expects 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 better than the negative rating trigger. Further, 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. Its ability to shift towards secured granular retail assets will be key for a sustained improvement in the asset quality and profitability.

ICRA has withdrawn the rating assigned to the Rs. 400-crore Basel III Tier II Bonds as these bonds have been fully redeemed and no amount is outstanding against the rated instrument. The rating was withdrawn in accordance with ICRA's policy on withdrawal (click here for the policy).

Key rating drivers and their description

Credit strengths

Comfortable capital position – Despite posting losses in FY2022 and the 6% year-on-year (YoY) increase in the risk-weighted assets (RWAs), the Tier I ratio remained comfortable at 16.00% as on June 30, 2022 (16.09% as on June 30, 2021). The bank's capitalisation profile was supported by the past equity raises of Rs. 1,566 crore in FY2021 and Rs. 2,701 crore in FY2020, which helped offset the impact of the weak capital accretion witnessed during FY2020-FY2022. The Bank also raised US$100 million in May 2022 (Tier 2 capital) which largely led to an increase in the reported capital-to-risk weighted assets ratio (CRAR) levels to 17.27% as on June 30, 2022 (17.51% including Q1 FY2023 profits) from 17.15% as on June 30, 2021.

Going forward, RBL has guided towards a relative improvement in internal capital generation although it is expected to be weaker than the levels seen prior to FY2020 and contingent on the credit costs remaining within the guided range for FY2023. While the improvement in the return indicators is likely to be gradual, the overall capital cushions as well as the solvency levels are expected to remain better than the negative rating triggers.

Deposit base stabilises; succession planning concludes – Following the events on December 25, 2021, RBL's deposit base contracted sequentially by 3% to Rs. 73,639 crore as on December 31, 2021. While the deposit base remained relatively volatile in the ensuing weeks, the contraction in the deposit base was arrested and stabilised in Q4 FY2022 before eventually growing to Rs. 79,216 crore as on June 30, 2022, which was higher compared to the outstanding deposit base as of December 25, 2021. Moreover, as the book growth has been limited, the liquidity surplus remains at/is higher than the level preceding the events in December 2021.

Also, the management and the new MD & CEO have articulated their strategy to granularise the liability profile and increase the share of secured retail assets by expanding the retail franchise. As these are initial days, the adherence and outcome of the stated strategies will remain monitorable. With the bank's expectation of improving the share of the granular and stable deposit base while winding down excess liquidity to support the credit growth in the near term, the deposit base is not expected to grow meaningfully going forward. The credit-to-deposit (CD) ratio is expected to increase from the level of 76% as on June 30, 2022.

Credit challenges

Asset quality remains monitorable – ICRA notes that the high-yielding unsecured retail segments (mainly comprising credit cards, microfinance and unsecured business loans) have been a source of asset quality challenges for lenders, including RBL, following the onset of the pandemic. The pandemic-induced slippages in these segments mainly led to the higher fresh non-performing advances (NPA) generation of 6.87% in FY2022 (5.54% in FY2021), which remained elevated at 4.41% (on an annualised basis) in Q1 FY2023 as well even as the impact of the pandemic has been subsiding gradually.

Despite the asset quality stress, the headline asset quality numbers, i.e. gross NPAs and net NPAs, witnessed relatively less deterioration because of the sizeable write-offs done by the bank (over FY2021-FY2022). As a result, RBL's overall credit costs remained elevated, which impacted its profitability and return metrics. The standard restructured book, which stood at 2.9% of the standard advances, together with the overdue advances in the retail segments and the corporate book rated BB & below remain sizeable in relation to RBL's capital and will remain a monitorable. Going forward, the extent of NPA generation is expected to be lower in relation to the levels seen over the past two years. However, the recent weakening in macro-economic factors, including elevated commodity/input prices, as well as higher servicing costs as the rise in interest rates could pressurise a certain set of borrowers. The ability to contain slippages at lower levels will be key for an improvement in the bank's asset quality and profitability metrics.

Suboptimal internal capital generation; improvement will depend on ability to contain slippages and credit costs – RBL's changing business mix in recent years, involving its increasing presence in unsecured retail segments, supported an improvement in its operating profitability. However, high slippages during FY2020-FY2022 (first due to corporate book slippages, followed by a sharp spike in slippages induced by the pandemic in the unsecured retail segments) resulted in elevated credit costs, which led to the weakening of the net profitability and the return on assets (RoA) during this period. Over and above this, the bank continued to maintain relatively high liquidity amidst weak credit demand even as deposit accretion continued, leading to a drag on profitability, particularly given the higher cost of interest-bearing funds for the bank. Accordingly, the core operating profitability moderated to 2.4% of average total assets (ATA) in FY2022 from 3.0-3.1% in FY2020-FY2021. This, coupled with elevated credit costs (2.5% of ATA in FY2021 and 2.6% in FY2022), resulted in weak return metrics, with the RoA turning negative (-0.1% in FY2022) from 0.5-0.6% during FY2020-FY2021. In Q1 FY2023, the RoA witnessed a relative improvement to 0.8% on the back of lower credit costs although the bank's ability to limit slippages will be key to sustain the improvement in the internal capital generation. This remains a near-to-medium-term monitorable.

Share of bulk deposits remains high – While deposit accretion continued at a reasonable pace with the overall deposit base witnessing a YoY growth of 6.4% to Rs. 79,216 crore as on June 30, 2022 and a meaningful growth of 28.3% over the June 30, 2020 level, the overall loan book growth was relatively limited at 6.6% (6.3% growth in advances over June 30, 2020). As a result, the overall dependence on bulk/wholesale deposits was relatively lower, which helped support a steady rise in the share of low-cost current and savings accounts (CASA) to ~36% as on June 30, 2022 (~30% as on June 30, 2020), albeit on a relatively higher rate offering.

Despite the higher CASA levels, the share of bulk deposits (>Rs. 2 crore) remained high for the bank (~62% of total deposits as on March 31, 2022) leading to elevated depositor concentration levels with the share of the top 20 depositors at 16.6% as on March 31, 2022 (15.3% as on March 31, 2021 and 18.8% as on March 31, 2020). This, along with the lower share of CASA in relation to the private banks' (PVB) average, led to the cost of interest-bearing funds remaining at 4.73% in FY2022 (4.69% in Q1 FY2023) compared to 3.85% for PVBs. 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. This will also be key for protecting the profitability while growing presence in other segments entails relatively lower risk.

Liquidity position: Adequate

Despite the high statutory liquidity ratio (SLR) at ~35% of net demand and time liabilities (NDTL) on the fortnightly reporting date of June 03, 2022 (against the regulatory minimum of 18%), the high share of bulk deposits tempers the liquidity profile. With the daily average liquidity coverage ratio at 149% in Q1 FY2023 (143% for FY2022 against the regulatory requirement of 100%), the liquidity profile is comfortable. The excess SLR can be utilised to avail liquidity support from the RBI (through repo) apart from the marginal standing facility in case of urgent liquidity needs. The bank's ability to maintain a high rollover rate of deposits and improve the granularity of the deposit base in the future will remain a key factor for sustaining liquidity.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the rating if there is a sustained improvement in the granularity of the liability profile along with a decline in the cost of funds in relation to the sector. The bank's ability to maintain the capital cushions above 3% of the Tier I regulatory levels (9.5% including capital conservation buffers) and the RoA at >1.5% on a sustained basis will be a key positive factor.

Negative factors – ICRA could assign a Negative outlook or downgrade the ratings if there is a deterioration in the asset quality or capital position, leading to the weakening of the solvency profile with net NPA/core equity of >25% on a sustained basis. Further, a sustained RoA of <1.0% and/or a decline in the capital cushions to less than 2% in relation to the Tier I regulatory levels on a sustained basis will remain negative triggers. Moreover, a material weakening in the bank's liability franchise, impacting its resource profile, will be a negative factor.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	ICRA's Rating Methodology for Banks ICRA's Rating Methodology on Consolidation ICRA's Policy on Withdrawal of Credit Ratings
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 infusions 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 June 30, 2022, RBL had 502 branches, 289 banking outlets, 1,302 business correspondent (BC) branches (including banking outlets) and 417 ATMs.

Key financial indicators (audited) – Standalone

RBL Bank Limited		FY2021	FY2022	Q1 FY2022	Q1 FY2023
Net interest income	Rs. crore	3,788	4,027	970	1,028
Profit before tax	Rs. crore	689	77	(618)	276
Profit after tax	Rs. crore	508	(75)	(459)	201
Net advances	Rs. crore	58,623	60,022	56,527	60,270
Total assets	Rs. crore	1,00,651	1,06,208	1,00,341	1,07,732
CET	%	16.63%	16.21%	16.09%	16.00%
Tier I	%	16.63%	16.21%	16.09%	16.00%
CRAR	%	17.50%	16.82%	17.15%	17.27%*
Net interest margin / Average total assets	%	3.99%	3.89%	3.86%	3.84%
Net profit / Average total assets	%	0.54%	-0.07%	-1.83%	0.75%
Return on net worth	%	4.01%	-0.59%	-14.78%	6.32%
Gross NPAs	%	4.34%	4.40%	4.99%	4.08%
Net NPAs	%	2.12%	1.34%	2.01%	1.16%
Provision coverage excl. technical write-offs	%	52.28%	70.44%	60.94%	72.52%
Net NPA/ Core capital	%	10.09%	6.56%	9.60%	5.57%

Source: RBL Bank Limited, ICRA Research
Note: All calculations as per ICRA Research
**- Excluding profits for Q1FY2023*

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(s) of the instrument(s) mentioned herein.

Rating history for past three years

S. No.	Name of Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years			
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	Sep 14, 2022	Jun 09, 2022	FY2022		FY2021	FY2020
							Feb 14, 2022	Dec 31, 2021	Feb 25, 2021	Jan 17, 2020
1	**Certificates of Deposit**	Short Term	6,000.00	3,100*	**[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**	Long Term	400.00	330.00^	**[ICRA] AA-(Stable)**	**[ICRA] AA-&**	**[ICRA] AA-&**	**[ICRA] AA-&**	**[ICRA] AA-(hyb) (Stable)**	**[ICRA] AA-(hyb) (Stable)**
4	**Basel III Tier II Bonds**	Long Term	400.00	400.00	**[ICRA] AA-(Stable); reaffirmed and withdrawn; removed from Watch with Developing Implications and Stable outlook assigned**	**[ICRA] AA-&**	**[ICRA] AA-&**	**[ICRA] AA-&**	**[ICRA] AA-(hyb) (Stable)**	**[ICRA] AA-(hyb) (Stable)**
5	**Fixed Deposits**	Long Term	-	-	**[ICRA] AA-(Stable)**	**[ICRA] AA-&**	**MAA&**	**MAA&**	**MAA (Stable)**	**MAA (Stable)**

*& Rating Watch with Developing Implications; ^ Balance amount yet to be placed; *As on September 07, 2022*

Complexity level of the rated instrument

Instrument	Complexity Indicator
Basel III Tier II Bond Programme	Highly Complex
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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
INE976G08064	Basel III Tier II Bonds	Sep 27, 2016	10.20%	Apr 15, 2023	330.00	[ICRA]AA- (Stable)
NA	Basel III Tier II Bonds	Yet to be placed	-	-	70.00	[ICRA]AA- (Stable)
NA	Certificates of deposit	Yet to be placed	-	7-365 days	2,900.00	[ICRA]A1+
INE976G16NA1	Certificates of deposit	Aug 29, 2022	6.50%	Jan 16, 2023	400.00	[ICRA]A1+
INE976G16MZ0	Certificates of deposit	Aug 29, 2022	6.38%	Dec 5, 2022	600.00	[ICRA]A1+
INE976G16MY3	Certificates of deposit	Aug 25, 2022	6.46%	Jan 10, 2023	250.00	[ICRA]A1+
INE976G16MW7	Certificates of deposit	Jun 29, 2022	6.60%	Dec27, 2022	500.00	[ICRA]A1+
INE976G16MX5	Certificates of deposit	Jun 29, 2022	6.40%	Oct 3, 2022	100.00	[ICRA]A1+
INE976G16MX5	Certificates of deposit	Jun 29, 2022	6.40%	Oct 3, 2022	250.00	[ICRA]A1+
INE976G16MX5	Certificates of deposit	Jun 29, 2022	6.40%	Oct 3, 2022	500.00	[ICRA]A1+
INE976G16MW7	Certificates of deposit	Jun 28, 2022	6.60%	Dec 27, 2022	500.00	[ICRA]A1+
NA	Short-term fixed deposits	NA	NA	NA	-	[ICRA]A1+
NA	Fixed deposits	NA	NA	NA	-	[ICRA]AA- (Stable)

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- (Stable); withdrawn
INE976G08056	Basel III Tier II Bonds	Mar 31, 2016	10.25%	Jun 30, 2022	200.00	[ICRA]AA- (Stable); withdrawn

Source: RBL Bank Limited; CD O/S as on September 07, 2022

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 II: 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

Corrigendum

Rationale dated September 14, 2022, has been revised with changes as below:

– Addition of "ICRA's Rating Methodology on Consolidation" in the analytical approach section

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