August 21, 2024

RBL Bank Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Tier II bonds	70.00	70.00	[ICRA]AA- (Stable); reaffirmed
Fixed deposit	-	-	[ICRA]AA- (Stable); reaffirmed
Short-term fixed deposit	-	-	[ICRA]A1+; reaffirmed
Certificates of deposit	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Total	**6,070.00**	**6,070.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings reaffirmation factors in the improvement in RBL Bank Limited's (RBL) earnings profile on the back of the healthy growth in advances and the overall deposit base. ICRA notes that the bank has also been able to improve its margins despite the rise in the share of the secured portfolio and the increase in the cost of funds. Nevertheless, operating costs remained elevated, leading to suboptimal operating profitability. RBL has guided towards a return on assets (RoA) of 1.4-1.5% by end of FY2026. However, given the rising asset quality pressure in the credit card and microfinance segments, the bank's ability to control credit costs in the backdrop of suboptimal operating profitability can remain a challenge. The ratings also consider RBL's comfortable capital position and adequate liquidity, though it may need to raise equity capital in the next couple of quarters to support growth.

The bank has seen steady growth in the overall deposit base and the share of retail deposits. However, dependence on bulk deposits remains relatively high, leading to a higher cost of funds compared to the average for private sector banks (PVBs) as well as elevated depositor concentration levels. As RBL shifts towards secured granular retail assets, its ability to build a more granular and stable deposit base at competitive rates will be a key driver of its profitability. The ratings also take note of the vulnerable book (SMA[1]-1, SMA-2 and standard restructured book), which has moderated meaningfully from the much higher level a year ago.

The long-term rating remains constrained by the moderating but high share of the unsecured retail loan book (largely credit cards and microfinance). The asset quality of this book has witnessed severe weakening, leading to pressure on the profitability in the past. Moreover, the stress on credit cards and microfinance loans across the industry has increased recently. As these loans account for a third of its total loans, RBL's asset quality and profitability profile will remain monitorable.

The Stable outlook factors in ICRA's expectation that the bank will be able to maintain comfortable capitalisation and solvency[2]. However, the high share of the unsecured retail book remains a concern, which is likely to reduce only over the medium term as RBL expands its secured retail product offerings.

[1] *SMA is defined as a special mention account; SMA-1 accounts are overdue by 31-60 days while SMA-2 accounts are overdue by 61-90 days*

[2] *Solvency = Net stressed book/Core capital; net stressed book includes net non-performing advances (NPAs), net non-performing investments (NPIs) and net security receipts (SRs)*

Key rating drivers and their description

Credit strengths

Comfortable capital position – While the bank's profitability has improved from past levels, the growth in the loan book and increase in the risk weights on credit cards led to capital consumption. Nonetheless, the Tier I ratio (including profit) remained comfortable at 13.85% as on June 30, 2024 (15.05% as on June 30, 2023). Amid the weak profitability/losses in the recent past, RBL demonstrated its fundraising ability with the equity capital raise of Rs. 1,566 crore in FY2021 and Rs. 2,701 crore in FY2020. It had also raised $100 million in May 2022 (Tier II capital), which supported an increase in the capital-to-risk weighted assets ratio (CRAR) to 16.68% as on June 30, 2023 (17.51% as on June 30, 2022) though the same moderated to 15.56% as on June 30, 2024 and higher than the regulatory requirement of 11.50%.

Going forward, the bank has guided towards further improvement in internal capital generation although this is contingent on the asset quality and credit costs. While the improvement in the return indicators is likely to be gradual, ICRA expects RBL to raise capital over the next couple of quarters to keep the overall capital cushions as well as the solvency levels better than the negative rating triggers.

Improving deposit base, although share of bulk deposits remains high – Deposit accretion continued at a strong pace with the overall deposit base growing by 18.4% YoY to Rs. 1.01 lakh crore as on June 30, 2024. The growth in deposits also supported a strong growth in overall advances with 18.6% YoY growth reaching Rs. 0.87 lakh crore as on June 30, 2024). This supported the steady credit to deposit ratio for the bank at 85.5% as on June 30, 2024 (85.3% as on June 30, 2023) amid tight liquidity conditions in the banking system.

The bank has been gradually increasing the share of retail deposits, which also supported its liquidity coverage ratio over the past year. Nonetheless, the share of granular deposits (<Rs. 3 crore) remains low for the bank (though has improved to 49.3% of total deposits as on June 30, 2024 vs 46.8% as on June 30, 2023). The depositor concentration level also remains elevated with the share of the top 20 depositors at 17.4% as on March 31, 2024 (16.2% as on March 31, 2023 and 16.6% as on March 31, 2022). This, along with the lower share of current account savings account (CASA), at 32.6% as on June 30, 2024 (37.3% as on June 30, 2023) in relation to the PVB average, led to the higher cost of interest-bearing funds at 5.85% compared to 5.42% for PVBs in FY2024. The overall differential in the cost of funds, though declining, is likely to remain high as efforts to granularise the liability profile through the expansion of the branch network will bear fruit over the medium to long term. This will also be key for protecting the profitability, while growing its presence in other segments, which are relatively lower risk.

Credit challenges

Asset quality remains a monitorable – ICRA notes that the high-yielding unsecured retail segments (mainly comprising credit cards and microfinance) have posed asset quality challenges during the Covid-19 pandemic. The slippages in these segments mainly led to the higher fresh non-performing advances (NPA) generation rate (5.5-6.9% during FY2021-FY2022) for the bank, which has since moderated to 4.65% in FY2023 and 3.52% in FY2024. Given the rising stress in these segments, the annualised slippage rate remained range-bound at 3.45% in Q1 FY2025 and the asset quality will remain monitorable in the coming quarters. The ability to keep slippages at lower levels will be key for an improvement in RBL's asset quality and profitability metrics.

Despite the asset quality stress in the past, the bank's headline asset quality numbers, i.e. gross and net NPAs, witnessed relatively less deterioration because of sizeable write-offs as per its internal policy. As a result, RBL's overall credit costs remained elevated, which impacted its profitability and return metrics. With the improvement in the overall macro environment, the share of the standard restructured book moderated further to 0.4% of standard advances as on June 30, 2024 (1.1% as on June 30, 2023). This coupled with the overdue advances in the retail segments and the lower rated corporate book (internally rated BB & below) in relation to RBL's capital has moderated to much lower and manageable levels.

Improving profitability; although return metrics continue to be moderate – RBL's changing business mix, involving an increase in the share of retail assets and liabilities, has resulted in significant operational expenses with operating costs/average total assets (ATA) remaining high at 4.8% in Q1 FY2025 (3.5-4.7% during FY2022-FY2024). This continued to lead to suboptimal operating profits despite the strong growth in the scale with the core operating profit at 2.3% of ATA in FY2024 and 2.4% in Q1 FY2025, which were lower than the PVB average. Further, despite moderating, credit costs remained above the PVB average due to the higher share of unsecured loans, translating into moderate RoA of 1.1% in Q1 FY2025 (0.9% in FY2024 and 0.8% in FY2023).

Earlier, high slippages during FY2020-FY2023 (first due to corporate book slippages, followed by slippages in the unsecured retail segments including the pandemic) resulted in elevated credit costs, which led to the weakening of the net profitability and the RoA during this period. The moderation in the credit costs to 1.1% of ATA in Q1 FY2025 (2.4-2.5% during FY2021-FY2022) resulted in an improvement in the RoA. The ability to improve the operating leverage and control credit costs will be key for increasing the operating profitability and sustaining higher internal capital generation.

Liquidity position: Adequate

Despite the excess statutory liquidity ratio (SLR) of ~11% of net demand and time liabilities (NDTL) on the fortnightly reporting date of May 17, 2024 (over the regulatory minimum of 18%), the comparatively higher share of bulk deposits tempers the liquidity profile. The daily average liquidity coverage ratio was 137% in Q1 FY2025. The excess SLR can be utilised to avail liquidity support from the Reserve Bank of India (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 further improve the granularity of the deposit base in the future will remain a key factor for sustaining liquidity.

Environmental and social risks

While banks like RBL do not face material physical climate risks, they are exposed to environmental risks indirectly through their portfolio of assets. If the entities or businesses, to which banks and financial institutions have an exposure, face business disruptions because of physical climate adversities or if such businesses face climate transition risks because of technological, regulatory or customer behaviour changes, the same could translate into credit risks for banks. However, such risk is not material for RBL as it benefits from adequate portfolio diversification. Further, the lending is typically short-to-medium term, allowing it to adapt and take incremental exposure to businesses that face relatively fewer downside environmental risks.

With regard to social risks, data security and customer privacy are among the key sources of vulnerability for banks as material lapses could be detrimental to their reputation and invite regulatory censure as seen in the case of other banks in the recent past. RBL has not faced any material lapse over the years. Customer preferences are increasingly shifting towards digital banking, which provides an opportunity to reduce the operating costs. RBL has been making the requisite investments to enhance its digital interface with its customers. While it contributes to promoting financial inclusion by lending to the underserved segments, its lending practices remain prudent as reflected in the healthy asset quality numbers in this segment compared with its peers.

Rating sensitivities

Positive factors – ICRA could 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 more than 1.3% on a sustained basis will be a key positive factor.

Negative factors – ICRA could 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 more than 25% on a sustained basis. Further, a sustained RoA of less than 0.8% 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 and Financial Institutions](#) [Rating Approach – Consolidation](#)
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 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, 2024, RBL had 545 branches, 1,261 business correspondent branches (of which 297 banking outlets) and 398 ATMs.

Key financial indicators (standalone)

RBL Bank Limited	FY2023	FY2024	Q1 FY2024	Q1 FY2025
Total income	7,365	8,950	2,060	2,465
Profit after tax	883	1,168	288	372
Total assets (Rs. lakh crore)	1.16	1.38	1.18	1.36
CET	15.25%	14.38%	15.05%*	13.85%*
CRAR	16.92%	16.18%	16.68%*	15.56%*
Net profit / ATA	0.79%	0.92%	0.98%	1.08%
Gross NPAs	3.37%	2.65%	3.22%	2.69%
Net NPAs	1.10%	0.74%	1.00%	0.74%

*Source: RBL Bank Limited, ICRA Research; Amount in Rs. crore unless specified otherwise; Total income = Net interest income + Non-interest income (excluding trading gains); All calculations as per ICRA Research; * Includes profits for the period*

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

	Instrument	Current Rating (FY2025)			Chronology of Rating History for the Past 3 Years				
		Type	Rated Amount (Rs. crore)	Date & Rating in FY2025	Date & Rating in FY2024	Date & Rating in FY2023		Date & Rating in FY2022	
				Aug 21, 2024	Aug 16, 2023	Sep 14, 2022	Jun 09, 2022	Feb 14, 2022	Dec 31, 2021
1	Certificates of deposit	Short term	6,000.00	[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	70.00	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA-&	[ICRA] AA-&	[ICRA] AA-&
4	Fixed deposits	Long term	-	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA- (Stable)	[ICRA] AA-&	MAA&	MAA&

& Rating Watch with Developing Implications

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
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	2,050.00	[ICRA]A1+
INE976G16NP9	Certificates of deposit	Mar 12, 2024	8.28%	Dec 06, 2024	750.00	[ICRA]A1+
INE976G16NR5	Certificates of deposit	Mar 20, 2024	8.28%	Jan 30, 2025	200.00	[ICRA]A1+
INE976G16NS3	Certificates of deposit	May 24, 2024	7.75%	Nov 20, 2024	25.00	[ICRA]A1+
INE976G16NT1	Certificates of deposit	Jun 05, 2024	7.47%	Sep 03, 2024	725.00	[ICRA]A1+
INE976G16NU9	Certificates of deposit	Jun 06, 2024	7.47%	Sep 04, 2024	1,750.00	[ICRA]A1+
INE976G16NV7	Certificates of deposit	Aug 02, 2024	7.93%	Mar 14, 2025	500.00	[ICRA]A1+
NA	Short-term fixed deposits	NA	NA	NA	-	[ICRA]A1+
NA	Fixed deposits	NA	NA	NA	-	[ICRA]AA- (Stable)

Source: RBL Bank Limited; Certificates of deposit outstanding as on August 02, 2024

Key features of rated debt instruments

The servicing of the fixed deposits and certificates of deposit is not subject to any capital ratios and profitability. However, the Basel III Tier II bonds are expected to absorb losses once the point of non-viability (PONV) trigger is invoked by the RBI. These 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 consolidated analysis

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

Source: RBL Bank Limited

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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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