February 25, 2021 Revised

RBL Bank Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Basel III Compliant Tier II Bond Programme	800.00	800.00	[ICRA]AA-(hyb) (Stable); reaffirmed
Medium-term Fixed Deposit Programme	-	-	MAA (Stable); reaffirmed
Short-term Fixed Deposit Programme	-	-	[ICRA]A1+; reaffirmed
Certificate of Deposit Programme	6,000.00	6,000.00	[ICRA]A1+; reaffirmed
Total	**6,800.00**	**6,800.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation for RBL Bank Limited (RBL) factors in its strong capital position and adequate liquidity position even though these positives are offset by the increasing share of the unsecured retail loan book and the asset quality and profitability pressures, which are likely to persist in FY2022. Despite moderate internal accruals, the bank's capital position has been supported by sizeable capital raise during Q3 FY2020 – Q3 FY2021, which has improved the capital cushion over the regulatory levels with the core equity (CET-I) at 17.1% as on December 31, 2020. The bank has also built its liquidity buffers with excess liquidity[1] of ~19% of net demand and time liabilities (NDTL), as on December 18, 2020 (over the regulatory requirement of 18%), in the backdrop of its concentrated deposit profile as well as the volatility in its deposit base in Q4 FY2020 after the failure of a private bank. To improve the liquidity buffers, RBL continues to offer attractive deposit rates and has seen an improvement in its deposit base from March 2020 even as its loan book has degrown since then.

As the bank faced asset quality challenges in the wholesale book in the last fiscal, it had been focusing on increasing the share of retail advances. However, the incremental growth was driven by high-yielding unsecured retail segments (credit cards and microfinance). These two segments accounted for ~33-34% of the net advances as on December 31, 2020 (20% as on March 31, 2019). The Covid-19 pandemic has severely impacted the asset quality in both these segments with high slippages and credit provisions as the loss upon default is expected to be high. Moreover, the loan book of these segments is likely to increase over the next year. Given the inherent nature of these segments, RBL will remain vulnerable to the credit risks arising from this portfolio, although the high-yielding unsecured retail book and improved capital position will be protective factors.

The Stable outlook factors in ICRA's expectations that the bank will be able to absorb the credit losses through its operating profitability without impacting its capital position and will maintain a comfortable solvency position as well. The increasing share of the unsecured retail book is, however, a concern, which is likely to reduce only over the medium term as RBL expands its secured retail product offerings.

[1] *Excess holding of Government securities over regulatory requirement*

Key rating drivers and their description

Credit strengths

Capital cushions supported by recently concluded capital raise – RBL raised equity capital of Rs. 1,566 crore (2.2% of risk-weighted assets as on December 31, 2020) in Q3 FY2021, which helped improve its capital cushions with the Tier I and CRAR at 17.1% (15.02% as on December 31, 2019) and 17.90% (16.08% as on December 31, 2019) as on December 31, 2020, respectively. This follows a meaningfully large capital raise by the bank in Q3 FY2020, amounting to Rs. 2,701 crore. In ICRA's view, with a combined capital raise of ~Rs. 4,267 crore in <12 months, RBL is comfortably placed to ride out the asset quality stress and maintain comfortable solvency levels.

Steady deposit accretion, coupled with degrowth in advances, has further improved liquidity buffers – Given the concentrated depositor base and concerns emanating from the failure of a private bank in March 2020, RBL witnessed a steep reduction of 8% in its deposit base in Q4 FY2020. However, since then, the bank has steadily improved its deposit base and liquidity buffers. Its net advances growth slowed to 7% YoY in FY2020 (35% in FY2019) and degrew by 5% YoY to Rs. 56,444 crore as on December 31, 2020. On the other hand, RBL's overall deposit base grew by 7% on a YoY basis as on December 31, 2020 and 16% from the March 31, 2020 level. Accordingly, its credit-to-deposit ratio moderated to ~84% as on December 31, 2020 from ~95% as on December 31, 2019 (~100% as on March 31, 2020). The bank had excess liquidity of over ~Rs. 10,000-11,000 crore (~19% of NDTL) during April-December 2020. However, a gradual stability in the operating environment and a recovery in credit demand is likely to lower the liquidity levels going forward. ICRA, nevertheless, expects the bank to maintain surplus liquidity until more granularity is achieved in the deposit profile.

Credit challenges

Asset quality challenges likely to persist in the near term, particularly in unsecured retail portfolio – Including the proforma slippages in the absence of a standstill on asset classification ordered by the Hon'ble Supreme Court, the fresh slippages were high at Rs. 1,709 crore (annualised fresh NPA generation rate of ~4% of standard advances) in 9M FY2021. Slippages remained high mainly due to the Covid-19-induced stress, although the impact on the unsecured retail portfolio has been more severe as these segments are inherently more susceptible to economic cycles or disruptions like Covid-19. This contrasted with FY2020, wherein the slippages were largely driven by the wholesale/corporate book. On a proforma basis, the asset quality metrics moderated with the gross and net NPAs rising to 4.57% and 2.37%, respectively, as on December 31, 2020 from 3.33% and 2.07% as on December 31, 2019.

RBL has been focusing on growing its retail loan book within which the unsecured book, mainly comprising the credit card and microloan segments, has been a key growth driver. The combined share of these segments increased to ~33-34% as on December 31, 2020 from ~20% as of March 2019. In the credit card segment, the bank reported a high share of book (~9.4%) at the end of the moratorium, ~50% of which subsequently moved into the 90+ days past due (dpd) category as on December 31, 2020. Similarly, in the microloans segment, a widespread challenge was seen in terms of higher delinquencies with a collection level of ~92% in December 2020 and the NPAs in this segment are likely to rise to 5.0-5.5% by the end of this year. The slippages and credit provisions are likely to flow through even during the first half of next year.

ICRA expects gross fresh slippages to be elevated at over 5.0% of standard advances in FY2021 and expected to decline in FY2022 but will still be higher than the past levels given the tail risk to the asset quality because of Covid-19. This shall also result in elevated credit costs in FY2022 as compared to historical trends.

Internal capital generation to remain moderate in the near term – Supported by a gradual change in the loan book mix, the bank's operating profitability/average total assets (ATA) improved to 3.06% in FY2020 (2.62% in FY2019) before moderating to 2.80% in 9M FY2021 owing to the reversal of interest income on slippages, drop in non-interest income as well as the impact of higher liquidity. Considering the extent of slippages expected over the near term coupled with the bank's policy of providing/writing off delinquent exposures in the unsecured segment over a comparatively shorter period, the incremental credit costs will remain high. As a result, internal capital generation will remain subdued in the near term. Notwithstanding the rise in the credit provisions and the moderation in the profitability, ICRA expects RBL to absorb these through its operating profitability and maintain/improve its capital position as on December 31, 2020.

Resource profile remains concentrated; cost of funds remains above PVB average – In recent years, the bank's strong growth in advances has been matched by a similar growth in deposits. While branch expansion and higher rate offerings have helped improve the share of current account and savings account (CASA) deposits in total deposits, RBL has remained dependent on large-ticket deposits to support growth. The top 20 depositors stood at 18.80% of the total deposits as on March 31, 2020 compared to 18.41% as on March 31, 2019 and 19.27% as on March 31, 2018. The share of CASA deposits improved to ~31% of total deposits as on December 31, 2020 (27% as on December 31, 2019), which is lower than the private banks' (PVB) average of ~41-42%. Moreover, despite the growth in CASA deposits, the concentration in term deposits remains high though improving.

Despite a decline in the cost of deposits, in line with the declining interest rate environment, the cost of interest-bearing funds remained higher than the PVB average at 5.90% in 9M FY2021 compared to 6.74% in FY2020 (5.41% for PVBs). The overall differential in the cost of funds remains high, given the efforts to diversify the liability profile.

Liquidity position: Adequate

Following the moderation in its deposit base in March 2020, the bank gradually expanded its liquidity position, which is reflected by the increase in the excess statutory liquidity ratio (SLR) level to ~21% of NDTL in December 2020 from ~11% as of April 2020. This was partly driven by the steady deposit accretion in 9M FY2021, capital infusion and the overall degrowth in the loan book. Accordingly, as per the structural liquidity statement, RBL has reported positive cumulative mismatches in all the <1-year maturity buckets as on December 31, 2020. The bank's liquidity coverage ratio was strong at 164% in Q3 FY2021, against the regulatory requirement of 100% from April 01, 2021. However, given the high share of large-ticket deposits, the ability to roll over these deposits will remain critical for sustaining liquidity.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Positive or upgrade the ratings 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 3% 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
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the standalone financials of RBL Bank Limited. 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 December 31, 2020, RBL operated through 403 branches, 259 banking outlets, 1,344 business correspondent (BC) branches (including banking outlets) and 412 ATMs.

Key financial indicators (standalone)

RBL Bank Limited		FY2019	FY2020	9M FY2020	9M FY2021
Net interest income	Rs. Crore	2,539	3,630	2,609	2,882
Profit before tax	Rs. Crore	1,300	753	602	579
Profit after tax	Rs. Crore	867	506	391	432
Net advances	Rs. Crore	54,308	58,019	59,635	56,444
Total assets	Rs. Crore	80,358	88,977	91,458	96,438
% CET	%	12.1%	15.3%	15.0%	17.1%
% Tier I	%	12.1%	15.3%	15.0%	17.1%
% CRAR	%	13.5%	16.4%	16.1%	17.9%
% Net interest margin / Average total assets	%	3.57%	4.29%	4.05%	4.14%
% Net profit / Average total assets	%	1.22%	0.60%	0.61%	0.62%
% Return on net worth	%	11.49%	4.78%	5.77%	4.98%
% Gross NPAs	%	1.38%	3.62%	3.33%	4.57%^
% Net NPAs	%	0.69%	2.05%	2.07%	2.37%^
% Provision coverage excl. technical write-offs	%	51%	44%	39%	49%^
% Net NPA/ Core capital	%	5.81%	11.56%	12.52%	10.78%^

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

^ Proforma numbers including proforma NPAs and standstill slippages as directed by the Hon'ble Supreme Court

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 (FY2021)					Chronology of Rating History for the Past 3 Years				
		Type	Rated Amount (Rs. crore)	Amount Outstanding (Rs. crore)	25-Feb-21	FY2020	FY2019		FY2018		
						Jan 17,2020	Feb 8, 2019	Aug 14, 2018	Jan 10, 2018	Oct 5, 2017	
1	Certificates of Deposit	Long Term	6,000.00	NA	[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 Complaint Tier II Bonds Programme	Long Term	800.00	730.00^	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	[ICRA] AA- (hyb) (Stable)	
4	Medium term Fixed Deposits	Medium Term	-	-	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)	MAA (Stable)	

^ Balance yet to be placed

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 click here

Annexure-1: Instrument details

ISIN No	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-(hyb) (Stable)
INE976G08056	Basel III tier II bonds	Mar 31, 2016	10.25%	Jun 30, 2022	200.00	[ICRA]AA-(hyb) (Stable)
INE976G08064	Basel III tier II bonds	Sep 27, 2016	10.20%	Apr 15, 2023	330.00	[ICRA]AA-(hyb) (Stable)
NA	Basel III tier II bonds	Yet to be placed	-	-	70.00	[ICRA]AA-(hyb) (Stable)
NA	Certificates of deposit	-	-	7-365 days	6,000.00	[ICRA]A1+
NA	Short-term fixed deposits	NA	NA	NA	NA	[ICRA]A1+
NA	Medium-term fixed deposits	NA	NA	NA	NA	MAA (Stable)

Source: *RBL Bank Limited*

Key features of rated debt instruments

The letters hyb, in parenthesis, suffixed to a rating symbol stand for hybrid, indicating that the rated instrument is a hybrid subordinated instrument with equity-like loss-absorption features; such features may translate into higher levels of rating transition and loss severity vis-à-vis conventional debt instruments. The rated Tier II bonds under Basel III are expected to absorb losses once the point of non-viability (PONV) trigger is invoked

Annexure-2: List of entities considered for limited consolidated analysis

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

ICRA

Corrigendum:

Rationale dated February 25, 2021 has been revised with changes as below:

Disclaimer on page 4 updated

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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.

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.

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